

Message from the Special Inspector General for Iraq Reconstruction

I am pleased to submit to the Congress the fifth Quarterly Report of the Office of the Special Inspector General for Iraq Reconstruction (SIGIR), which complies with the reporting requirements of Public Law 108-106, as amended. It documents our progress since the January 30, 2005 Quarterly Report and updates the status of reconstruction efforts funded by the Iraq Relief and Reconstruction Fund (IRRF). Contractual obligations of the IRRF grew during this reporting period from 56.8% to 66%, and expenditures increased from 13.7% to 23%.

In our last Report, I noted that the Office of the SIGIR was reconstituting its capabilities to carry on our important and specialized oversight mission. There had been months of speculation last year that, under the SIGIR's predecessor statute, we would cease operations at the end of calendar year 2004. The SIGIR's legislative reauthorization in late October extended the organization to continue its mission until 10 months after 80% of the IRRF has been obligated and it also directed the SIGIR to report on the entire IRRF.

The SIGIR has made great progress in reestablishing and reinvigorating its operations. We have succeeded in recruiting and hiring the personnel we need to achieve our mission objectives. By the end of May, our Baghdad staff—composed primarily of auditors, evaluators, and criminal investigators—will have increased from 7, working there in January, to about 30. I am very proud of these extremely competent professionals who have been willing join our team to serve their country in Iraq during these trying times.

During this reporting quarter, we produced a thoroughgoing new audit plan for 2005-2006 and announced several new audits that reach to the core of IRRF project management. We recognized the need for more granularity in the reporting on how the IRRF has been used to execute Iraq's reconstruction, on what current projects are underway, and on what future plans for construction are in the pipeline. This Report contains the details on a new system that we developed to combine all reporting on Iraq reconstruction contract and project activity into a single, understandable database.

In February, during my seventh trip to Iraq, I visited with each of the U.S. government organizations involved in managing Iraq reconstruction and asked for complete financial, contracting, and project management data. After some initial resistance, they responded rapidly, but they provided data of varying quality and scope. Our initial analysis of the thousands of lines of data we received has raised important questions about program management and data reliability. Thus, we have commenced two audits to assess the policies, procedures, and internal controls of those managing reconstruction as well as the information systems used to manage IRRF data.

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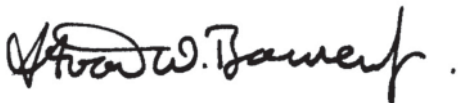
This Report also provides summaries of four recently completed audits and brief descriptions of selected investigations. Two of the audits, which we began under our previous incarnation as the Coalition Provisional Authority Inspector General (CPA-IG), found a lack of controls and poor oversight in contract administration and deficiencies in the management of cash disbursements, resulting in a potential for fraud. To be clear, these two audits involved assets from the Development Fund for Iraq (DFI) and not U.S. appropriated funds.

The officials responsible for the significant issues that our audits addressed generally agreed with our findings and recommendations and, in some cases, are working to remedy any remaining weaknesses. To permit them the opportunity to respond fully, and to ensure that the audits are fair, complete, and objective, I extended the deadline for their comments and thus, after notifying Congress, briefly delayed this Report's release.

We intend for our oversight to lead to improvements in the operational performance and accountability of those engaged in Iraq reconstruction. Our most recently completed audits demonstrate that we are making progress and can make a difference.

With our capabilities reestablished, and with the strong support of the Secretary of State and the Secretary of Defense, the SIGIR is energized and moving forward to provide more thorough and more comprehensive oversight of the U.S. investment in Iraq reconstruction.

Submitted on May 7, 2005.

A handwritten signature in black ink, reading "Stuart W. Bowen, Jr." with a period at the end. The signature is written in a cursive, flowing style.

Stuart W. Bowen, Jr.
Special Inspector General for Iraq Reconstruction

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Section 1

Executive Summary

Executive Summary

Executive Summary

The Office of the Special Inspector General for Iraq Reconstruction (SIGIR) moved into its second year of operation with the release of four new audit reports, an expanded professional staff, and an innovative audit plan that will provide continued oversight of Iraq reconstruction. This Quarterly Report includes a summary of SIGIR operations, as well as a review of the activities of other agencies with oversight responsibility for Iraq reconstruction.

The U.S. Mission Iraq is responsible for leading reconstruction efforts and setting reconstruction priorities, but at least 12 U.S. government agencies have or had direct responsibility for some portion of the \$18.4 billion Iraq Relief and Reconstruction Fund (IRRF)¹. The decentralization of responsibility and management complicates efforts to evaluate how U.S. appropriated funds are being used in Iraq. The SIGIR has the following concerns about:

- whether U.S. government organizations can generate a reliable, consolidated view of all activities funded by the IRRF
- whether U.S. government organizations can implement reliable estimates of the costs to complete current reconstruction projects
- whether systems that are used to track reconstruction projects can produce reports that tie these projects to the contracts that fund them
- whether contract data from IRRF-funded contracts is accessible, reliable, and complete
- whether contract officials are able to verify that work is completed satisfactorily before issuing payment

To support a more complete look at the state of Iraq reconstruction, the SIGIR has an initiative to acquire data that details what has been and will be built in Iraq, how much has been and will be spent, and the benefit that Iraqis have received from U.S. funding. The SIGIR Iraq Reconstruction Information System (SIRIS) is at the heart of this new initiative.

The SIRIS is being populated with data submitted by entities responsible for Iraq reconstruction. Although preliminary and incomplete, this baseline data covers more than 6,700 projects, task orders, and contracting actions. Previously, the SIGIR reported only on contracts valued at more than \$5 million. Of these contracts, the SIGIR received partial data, which allowed an assessment of only 10% of the IRRF. The SIRIS will be a comprehensive database of the projects and contracts funded by the \$18.4 billion IRRF.

The SIGIR will use the data in the SIRIS to design and perform the highest value audits and investigations, and other oversight organizations will be able to access the SIRIS to facilitate oversight of the IRRF.

Meeting the Mission

Shortly after its legislative reauthorization in late 2004, the SIGIR launched an aggressive program of recruitment and hiring. As a result, the percentage of auditors and investigators in Baghdad tripled between January and April 2005. The SIGIR's hiring plans for May 2005 provide for approximately 72% of its auditors and investigators to be located in Iraq.

The SIGIR Audit Plan 2005-2006 details how the SIGIR will assess the economy, efficiency, effectiveness, and results of Iraq reconstruction programs and operations. As its next step, the SIGIR audit team will pursue a wide range of onsite and remote performance audits and reviews on several topics, including:

- internal controls and systems for U.S. government organizations to measure, report, and monitor the use of IRRF funds
- recruitment and deployment processes for qualified project management and contracting staff
- management and controls of logistics systems
- records management processes and systems
- planning, performance, and management of construction contracts and non-construction plans and execution

The SIGIR Audit Plan is presented in Appendix H.

SIGIR Accomplishments

The SIGIR has been active in a number of areas since the January 30, 2005 Report, including:

- conducting audits and investigations
- supporting the Iraq Inspectors General
- coordinating Iraq reconstruction oversight among various auditing agencies
- working on continued areas of interest

Conducting Audits

Since the January 30, 2005 Report, the SIGIR has issued four final audit reports and has seven ongoing audits. During the same time period, the SIGIR initiated 7 investigations and continued work on 34 ongoing investigations.

Audits completed during the reporting quarter identified significant deficiencies and material management control weaknesses in program administration and contract management systems that track the contracting information necessary to monitor the progress of programs and projects. These are summaries of the findings of the four completed SIGIR audits:

1. Aegis Defence Services, Limited did not fully comply with all requirements in five areas of the contract that was subject to this audit (Contract No. W91150-04-C-0003). Specifically, Aegis did not provide sufficient documentation to show that all of its employees who were issued weapons were qualified to use those weapons or that its Iraqi employees were properly vetted to ensure that they did not pose an internal security threat. Also, Aegis was not fully performing several specific responsibilities required by the contract in the areas of personal security detail qualifications, regional operations centers, and security escorts and movement control. Further, we identified deficiencies in the monitoring of the contract by the Project and Contracting Office (PCO).

As a result, there is no assurance that Aegis is providing the best possible safety and security for government and reconstruction contractor personnel and facilities as required by the contract.

The report makes seven recommendations.

2. The Development Fund for Iraq (DFI) Account Manager's office did not maintain full control and accountability for approximately \$119.9 million of DFI cash issued to the South-Central Region paying agents in support of Rapid Regional Response Program projects. As a result, the DFI Account Manager and paying agents in the South-Central Region did not fully comply with applicable guidance and did not properly control, account, and turn in DFI cash assets. The SIGIR further concluded that the South-Central Region paying agents and the DFI Account Manager cannot properly account for or support more than \$96.6 million in cash and receipts.

The audit identified material management control weaknesses in that the DFI Account Manager and paying agents in the South-Central Region did not fully comply with applicable guidance and did not properly control, account for, and turn in DFI cash assets. Consequently, there was no assurance that fraud, waste, and abuse did not occur in the management and administration of cash assets.

During this audit, indications of potential fraud were referred to the SIGIR Assistant Inspector General for Investigations for such actions deemed appropriate.

The report makes eight recommendations.

3. The PCO did not adequately maintain the 37 contracts and associated contract files SIGIR reviewed, valued at more than \$184 million, to fully support

transactions relating to the performance of contract administration processes. Further, the PCO could not produce 21 percent, or 10 of the 48 randomly selected contract files for SIGIR's review. The PCO generally awarded contracts that contained adequately prepared statements of work, specific contract deliverables, and clearly negotiated contract terms. However, the audit identified significant deficiencies in contract administration processes and controls. Consequently, there was no assurance that the contract file data was available, complete, consistent, and reliable or that it could be used to effectively monitor and report the status of contracted project activity for the Iraq Relief and Reconstruction Fund (IRRF).

The audit identified material management control weaknesses in the administration of contract files. Consequently, there was no assurance that fraud, waste, and abuse did not occur in the management and administration of IRRF contracts.

The report makes seven recommendations.

4. The PCO did not fully comply with the requirements described in a memorandum from the Iraqi Interim Government Minister of Finance to the Director, Project Management Office, "Administration of Development Fund for Iraq (DFI)-Funded Contracts," June 15, 2004, to monitor DFI contract administration. The PCO and the Joint Area Support Group-Central (JASG-C) Comptroller could not accurately identify the current value of obligations, payments, and unpaid obligations for DFI contracts. However, cash payments appeared to be made in a timely manner. Additionally, the PCO lacked the necessary controls and adequate documentation to effectively perform their responsibilities to monitor and administer contracts funded by the DFI.

The audit identified material management control weaknesses in the accounting for DFI contract liabilities and significant deficiencies in contract administration. Consequently, there was no assurance that fraud, waste, and abuse did not occur in the management and administration of contracts funded by the DFI, that DFI funds were used in a transparent manner, or that DFI funds were used for the purposes mandated by UN Resolution 1483.

The report makes six recommendations.

Supporting the Iraqi Inspector General System

The SIGIR has been an active proponent in supporting the establishment of Offices of Inspectors General for 29 Iraqi ministries, providing training and assessment that will help define sustained operations. Total Iraqi Inspector General staffing grew from zero a year ago to now slightly more than 1,400 personnel, with 310 auditors, 420 inspectors, and 270 investigators working across all 29 ministries. Their accomplishments include:

- more than 1,000 inspections conducted
- more than 650 investigations conducted
- more than 800 audit reports initiated

Coordinating the Oversight of Iraq Reconstruction

This SIGIR Quarterly Report provides summaries of the audits and investigations performed by all of the members of the Iraq Inspectors General Council (IIGC). The SIGIR coordinates and collaborates with the members of the IIGC to ensure that duplication of effort does not occur and that initiatives benefit all IIGC members. The Chairman of the Senate Committee on Homeland Security and Governmental Affairs has recognized the SIGIR as the single coordination point for reconstruction oversight.

Continuing Areas of Interest

Finally, the threat to life and property has continued to be a major barrier to reconstruction activity. As of March 31, 2005, death claims for civilians working on U.S. government-funded contracts in Iraq had risen to 276—a 19% increase from December 31, 2004. In the first quarter of 2005, Defense Base Act insurance claims have grown by 45.2%, including 2,582 civilians working for U.S. contractors in Iraq.

An Overview of this Report

This Quarterly Report to Congress is organized in these sections and subsections:

Section 1: Executive Summary

Section 2: SIGIR Oversight of Iraq Reconstruction

- The Mission of the SIGIR
- SIGIR Audits
- SIGIR Investigations
- SIGIR Hotline
- SIGIR Activities and Initiatives
- Other Agency Oversight
- The SIGIR's Future Plans

Section 3: Iraq Reconstruction Activities

- Iraq Reconstruction Reporting
- Iraq Reconstruction Management
- Project and Contract Analysis
- Assessing Iraq Reconstruction

Section 4: Sources and Uses of Funds for Iraq Reconstruction

- IRRF and Other U.S. Appropriated Funds
- Iraqi Funds
- Donor Funds

Section 2

Public Law 108-106 (P.L. 108-106), as amended, requires the Special Inspector General for Iraq Reconstruction (SIGIR) to report to the Congress quarterly on the progress of its activity, as well as the Iraq reconstruction efforts conducted by other government agencies. This section covers these topics:

- The Mission of the SIGIR
- SIGIR Audits
- SIGIR Investigations
- SIGIR Hotline
- SIGIR Activities and Initiatives
- Other Agency Oversight
- The SIGIR's Future Plans

The Mission of the Special Inspector General for Iraq Reconstruction

In the inspector general community, the SIGIR is unique. As a limited-term organization with budgetary independence and a narrowly focused mission, the SIGIR provides oversight of U.S. appropriated funds in a distant location beset with violence.

The SIGIR is the successor to the Coalition Provisional Authority Inspector General (CPA-IG). On October 29, 2004, the SIGIR's authorities were redesignated and modified in a provision of the Ronald W. Reagan National Defense Authorization Act for FY 2005 (P.L. 108-375). This Act amended P.L. 108-106 and enabled the continued oversight of appropriated funds for Iraq relief and reconstruction without diffusion or transfer of responsibility.

For the programs and operations funded by the Iraq Relief and Reconstruction Fund (IRRF), the SIGIR is to provide:

- independent and objective audits and investigations
- leadership and coordination to promote economy, efficiency, and effectiveness
- prevention and detection of fraud, waste, and abuse
- a means to fully apprise the Secretaries of State and Defense of current problems and deficiencies

P.L. 108-106 (the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004), as amended, and the Inspector General Act of 1978 require that the SIGIR:

- Provide for the independent and objective conduct and supervision of audits and investigations.
- Provide for the independent and objective leadership and coordination of, and recommendations on, policies designed to promote economy, efficiency, and effectiveness in the management of Iraq reconstruction programs and operations.
- Prevent and detect fraud, waste, and abuse.
- Review existing and proposed legislation and regulations and make appropriate recommendations.
- Maintain effective working relationships with other federal, state, and local governmental agencies, and non-governmental organizations (NGOs) regarding the mandated duties of the Inspector General.
- Inform the Secretaries of State and Defense, and the Congress, of significant

problems, abuses, and deficiencies and follow the progress of corrective actions and implementation measures.

- Comply with the audit standards of the Comptroller General and avoid duplication of Government Accountability Office (GAO) activities.
- Report violations of law to the U.S. Attorney General and report on the prosecutions and convictions that have resulted.
- Maintain records for multiple purposes, including the use of funds for the reconstruction of Iraq, to facilitate future audits and investigations.
- Submit reports (Quarterly and Semiannual).

The SIGIR's statutory charter is available at <http://www.sigir.mil/laws.html>.

SIGIR Audits

The SIGIR conducts audits to carry out its mission to promote economy, efficiency, and effectiveness in the administration of Iraq reconstruction programs and operations and to detect and prevent waste, fraud, and abuse.

The scope of the SIGIR audits includes:

- performing oversight and accounting of the obligation and expenditure of funds used in Iraq reconstruction
- monitoring and reviewing reconstruction activities funded by such funds
- monitoring and reviewing contracts funded by such funds
- monitoring and reviewing the transfer of such funds and associated information between and among departments, agencies, and entities of the United States and private, non-governmental entities
- maintaining records on the use of such funds to facilitate future audits

To meet its mandate, the SIGIR maintains a staff of professional auditors appointed in the excepted service, detailed from federal government agencies, and selected from the private sector. The SIGIR auditors have a solid background in performance auditing. The audit staff also includes a specialized technical assessment team comprising staff trained in the areas of engineering, transportation, and logistics. The SIGIR's ongoing recruitment initiatives will enhance auditing coverage with more staff who are familiar with the policies, procedures, and systems in use in Iraq.

Since its January 30, 2005 Report to Congress, the SIGIR has issued four final reports of audits addressing operational and financial controls and procedures. Seven audits are in process. The SIGIR also has two planned audit projects and eight planned audit series. The SIGIR did not discontinue any audits during this reporting period. All audit work is performed under the generally accepted government auditing standards prescribed by the U.S. Comptroller General.

Completed Audit Reports

The SIGIR completed four audits reports since the January 30, 2005 Report. Table 2-1 lists the audit reports completed from January 30, 2005, to April 30, 2005. The full text of all completed SIGIR audits reports can be found on the SIGIR Website at http://www.sigir.mil/audit_reports.html.

Completed SIGIR Audit Reports, since January 30, 2005		
Report Number	Report Title	Date Issued
05-008	Administration of Contracts Funded by the Development Fund for Iraq	April 30, 2005
05-007	Administration of Iraq Relief and Reconstruction Fund Contract Files	April 30, 2005
05-006	Control of Cash Provided to South-Central Iraq	April 30, 2005
05-005	Compliance with Contract No. W911SO-04-C-0003 Awarded to Aegis Defence Services Limited	April 20, 2005

Table 2-1

Compliance with Contract No. W911SO-04-C-0003 Awarded to Aegis Defence Services Limited

Report No. 05-005, issued April 20, 2005

The overall audit objective was to determine whether the contractor is complying with the terms of the contract. Specifically, the SIGIR was to determine whether the contractor is providing adequate services, valid documentation, and proper invoices as required under the contract.

Aegis did not fully comply with all requirements in five areas of the contract. Specifically, Aegis did not provide sufficient documentation to show that all of its employees who were issued weapons were qualified to use those weapons or that its Iraqi employees were properly vetted to ensure that they did not pose an internal security threat. Also, Aegis was not fully performing several specific responsibilities required by the contract in the areas of personal security detail qualifications, regional operations centers, and security escorts and movement control. Further, the SIGIR identified deficiencies in the monitoring of the contract by the Project and Contracting Office (PCO).

As a result, there is no assurance that Aegis is providing the best possible safety and security for government and reconstruction contractor personnel and facilities as required by the contract.

Management agreed with the findings and recommendations made in the report. The report contained seven recommendations. Actions have been taken or are underway to correct the reported deficiencies.

Control of Cash Provided to South-Central Iraq

Report No. 05-006, issued April 30, 2005

The overall audit objective was to determine whether disbursing officers in selected locations in southern Iraq complied with applicable guidance and properly controlled and accounted for Development Fund for Iraq (DFI) cash assets and expenditures.

Specifically, the SIGIR determined whether fund agents:

- adequately controlled cash assets
- fully accounted for cash assets and expenditures
- properly returned cash assets

The SIGIR also determined whether expenditures complied with guidance specifying dollar thresholds and allowed uses.

During the course of the audit, the SIGIR identified deficiencies in the control of cash provided to the South-Central Region of such magnitude as to require prompt attention and separate reporting. Those deficiencies were so significant that the SIGIR was initially precluded from accomplishing the stated objectives. A separate audit report will address the original audit objectives.

The DFI Account Manager's office did not maintain full control and accountability for approximately \$119.9 million of DFI cash issued to South-Central Region paying agents in support of Rapid Regional Response Program projects. The processes employed by the DFI Account Manager's office for completing, controlling, and maintaining accurate records for the issuance of that cash to paying agents in the South-Central Region and for clearing those agents' cash account balances were flawed. Specifically, the DFI Account Manager did not:

- adhere to the clearing process for receipts of cash disbursements to ensure that cash accountability records were complete, accurate, and reconciled
- have required cash accountability documentation to identify the total amount of money provided to paying agents
- properly document transfers of cash between paying agents
- review required documentation and clear the cash accounts of all Division Level Agents every 30 days and instruct those agents to review required documentation and clear the cash accounts of Field Paying Agents every 30 days
- review required documentation in a timely manner
- issue appointment letters to all individuals to whom cash was entrusted

As a result, the DFI Account Manager and paying agents in the South-Central Region did not fully comply with applicable guidance and did not properly control, account for, and turn in DFI cash assets. The SIGIR further concluded that the South-Central Region paying agents and the DFI Account Manager cannot properly account for or support more than \$96.6 million in cash and receipts.

The audit identified material management control weaknesses in that the DFI Account Manager and paying agents in the South-Central Region did not fully comply with applicable guidance and did not properly control, account for, and turn in DFI cash assets. Consequently, there was no assurance that fraud, waste, and abuse did not occur in the management and administration of cash assets.

During this audit, the SIGIR found indications of potential fraud and referred these matters to the SIGIR Assistant Inspector General for Investigations for such actions deemed appropriate.

Management agreed with the finding and recommendations made in this report. The report contained eight recommendations. Actions have been taken or are underway to correct the report deficiencies.

Administration of Iraq Relief and Reconstruction Fund Contract Files

Report No. 05-007, issued April 30, 2005

The overall objective of the audit was to evaluate whether contracts awarded by the PCO for Iraq relief and reconstruction efforts contain adequately prepared statements of work, clearly negotiated contract terms, and specific contract deliverables. The audit included an evaluation of the administrative processes and controls related to contract execution, distribution, reporting, and disposition of files by the PCO for reconstruction projects in Iraq.

The PCO did not adequately maintain the 37 contracts and associated contract files SIGIR reviewed, valued at more than \$184 million, to fully support transactions relating to the performance of contract administration processes. Further, the PCO could not produce 21 percent, or 10 of the 48 randomly selected contract files for SIGIR's review. The PCO generally awarded contracts that contained adequately prepared statements of work, specific contract deliverables, and clearly negotiated contract terms. However, the audit identified significant deficiencies in contract administration processes and controls. Consequently, there was no assurance that the contract file data was available, complete, consistent, and reliable or that it could be used to effectively monitor and report the status of contracted project activity for the IRRF.

The audit identified material management control weaknesses in the administration of contract files. Consequently, there was no assurance that fraud, waste, and abuse did not occur in the management and administration of IRRF contracts.

Management agreed with the finding and recommendations made in this report. The report contained seven recommendations. Actions have been taken or are underway to correct the reported deficiencies.

Administration of Contracts Funded by the Development Fund for Iraq
Report No. 05-008, issued April 30, 2005

The overall objective of the audit was to determine whether the Project and Contracting Office (PCO) complied with the Minister of Finance, Iraqi Interim Government, memorandum, "Administration of Development Fund for Iraq (DFI)-Funded Contracts," June 15, 2004. Specifically, the SIGIR was to determine whether the Director, PCO, effectively implemented the assigned responsibilities under the memorandum to monitor and confirm contract performance, certify and/or make payments, and administer contracts or grants funded with monies from the DFI. Due to the absence of documentation and the impracticality of extended travel to all the PCO regions, SIGIR auditors were unable to confirm contract performance for all the contracts reviewed or fully assess all aspects of the administration of contracts and grants.

Further, because the Joint Area Support Group-Central (JASG-C) Comptroller, rather than the PCO, had responsibility for certifying and making payments, the SIGIR modified the original objective to determine whether the Director, PCO, effectively monitored contracts to ensure: the accurate recording of obligations, payments, and unpaid obligations; timely payments; and sufficient documentation for contracts and grants funded with monies from the DFI.

The PCO did not fully comply with the requirements described in a memorandum from the Iraqi Interim Government Minister of Finance to the Director, Project Management Office, "Administration of Development Fund for Iraq (DFI)-Funded Contracts," June 15, 2004, to monitor DFI contract administration. The PCO and the JASG-C Comptroller could not accurately identify the current value of obligations, payments, and unpaid obligations for DFI contracts. However, cash payments appeared to be made in a timely manner. Additionally, the PCO lacked the necessary controls and adequate documentation to effectively perform their responsibilities to monitor and administer contracts funded by the DFI.

The audit identified material management control weaknesses in the accounting for DFI contract liabilities and in contract administration. Consequently, there was no assurance that fraud, waste, and abuse did not occur in the management and administration of contracts funded by the DFI, that DFI funds were used in a transparent manner, or that DFI funds were used for the purposes mandated by UN Security Council Resolution 1483.

The report contained six recommendations. Management from PCO and JASG-C agreed with the findings and recommendations made in this report. Actions have been taken or are underway to correct the reported deficiencies. No management comments to a draft of this report were received from the Chief of Mission of the United States Embassy Baghdad or from the Commander, Multi-National Force-Iraq.

Draft Reports Issued

The SIGIR has no draft audits as of the reporting date.

Current Audits

Currently, the SIGIR is working on seven ongoing audits:

Cash Controls over Disbursing Officers in Southern Iraq (Project No. D2004-DCPAAF-0034.2)

The overall audit objective is to determine whether disbursing officers in selected locations in southern Iraq complied with applicable guidance and properly controlled and accounted for DFI cash assets and expenditures. This will be the second in the series of audits on controls over DFI cash disbursements.

Commanders' Emergency Response Program (CERP) (Project No. D2005-DCPAAF-0001)

The overall objective of this audit is to evaluate the adequacy of controls over the CERP. Specifically, the SIGIR will determine whether fund allocation procedures were adequate, funds were used for intended purposes, and financial records were accurately maintained and supported.

Information Systems Used for the Management of Iraq Relief and Reconstruction Fund Programs (Project No. D2005-DCPAAI-0004)

The overall objective of this audit is to determine whether information systems used by U.S. government organizations result in the effective management of IRRF programs. The audit will also determine whether those information systems were adequately reliable and sufficiently coordinated among those organizations to ensure accurate, complete, and timely reporting to senior government officials and the Congress on the use of IRRF funds.

Policies and Procedures Used for Iraq Relief and Reconstruction Fund Project Management (Project No. D2005-DCPAAP-0005)

The overall objective of this audit is to determine whether the policies, procedures, and internal controls established by U.S. government organizations result in the effective management of Iraq reconstruction projects. The audit will also determine whether those policies, procedures, and internal controls were adequately coordinated among U.S. government organizations and whether they resulted in sufficient consistency among those organizations for the effective management and timely completion of Iraq reconstruction projects.

Controls Over Equipment Acquired by Security Contractors
(Project No. SIGIR-2005-0006)

The objective of this audit is to determine whether controls over equipment acquired by security contractors have been established, implemented, and effective.

U.S. Army Corps of Engineers (USACE) Indefinite Delivery-Indefinite Quantity (IDIQ) Contracts and/or Construction-Related Services Available for Use or Used by the Coalition Provisional Authority for Iraq Relief and Reconstruction
(Project No. D2004-DCPAAC-0012)

The audit objectives are to determine whether contracts were awarded in compliance with the Federal Acquisition Regulation (FAR); whether the use of USACE in award of contracts was reasonable, economical, and efficient; and whether the internal controls are in place to ensure compliance with the original intent of contracts and that task orders conform to contract statements of work.

Work on this project was suspended because of higher priority audit products.

Electrical Transmission and Distribution for the Erbil Governorate under Task Order 003 of Contract Number W914NS-04-D-0010
(Project No. D2004-DCPAAC-0035)

The overall audit objective is to determine whether the contractors for the Erbil Electrical Transmission and Distribution project are complying with the terms of the Task Order. The SIGIR will also evaluate the effectiveness of the PCO's monitoring and control.

Work on this project was suspended because of higher priority audit products.

Discontinued Audits

The SIGIR did not discontinue any audits during this reporting period.

Future Audits

The SIGIR will conduct performance audits that assess the economy, efficiency, effectiveness, and results of Iraq reconstruction programs and operations. These audits will be accomplished through individual audit projects of specific issues, as well as audit series that will evaluate several components of related topics. For specific details, see the SIGIR 2005-2006 Audit Plan in Appendix H.

Planned Audit Projects

Recruiting and Deployment of Project Management and Contracting Personnel Supporting Iraq Reconstruction

The overall audit objective is to determine whether the U.S. government organizations' recruitment and deployment processes for qualified project management and contracting staff supporting Iraq reconstruction are effective.

Iraq Reconstruction Records Management

The overall audit objective is to determine whether U.S. organizations have established adequate requirements, systems, and processes to manage and maintain records to facilitate future audits and investigations.

Planned Audit Series

Reconstruction Activities Audits (Secure Sites)

This series of audits will assess the management of selected phases of construction and non-construction projects. These audits will be performed with a wide variety of specific audit objectives.

Reconstruction Activities Audits (Non-Secure Sites)

This series of audits will assess selected phases of construction and non-construction projects at specific points in time. These audits will be performed with a narrow range of specific audit objectives on selected projects for which security is not sufficiently adequate to allow SIGIR staff to conduct site visits.

Audit Surveillance Reports (Construction)

This type of audit will be performed for selected construction projects for which security is not sufficiently adequate to allow project management staff to conduct site visits. These audits will generally address current, but perishable, point-in-time information on construction projects obtained through non-traditional means, such as aerial surveillance.

Audit Surveillance Reports (Non-Construction)

This type of audit will be performed for selected non-construction projects for which security is not sufficiently adequate to allow project management staff to conduct site visits. These audits will generally address current, but perishable, point-in-time information on non-construction projects that is obtained through non-traditional means other than SIGIR staff visits, but these audits will be tasked and evaluated by SIGIR auditors and technical subject matter experts. Examples of these projects include democracy-building programs, public education programs, and private-sector employment development programs.

Internal Controls Reports (Construction and Non-Construction)

This type of audit will examine the internal controls and systems put in place by project managers for measuring, reporting, and monitoring project performance; also, it will evaluate the use of those internal controls and systems. These audits relate to projects

at non-secure sites, will entail a more systematic examination of evidence than the surveillance audits, and may be performed in combination with SIGIR audit surveillance techniques.

Requirements Audits (Construction and Non-Construction)

This series of audits will assess the overall planning and requirements determination for initiating future construction and non-construction projects.

Stabilization and Reconstruction Deployment Package Audits

This series of audits will assess core business processes and subsequently identify minimum-requirements approaches for specific functional areas that can ensure continuity, economy, efficiency, effectiveness, and program results for the current and future program management of endeavors like Iraq reconstruction.

Logistics Management Audits

This series of audits will assess the management and controls of logistics systems supporting Iraq reconstruction efforts.

SIGIR Investigations

Identifying, investigating, and preventing fraud, waste, and abuse in Iraq remains a difficult and demanding challenge. SIGIR investigators continue to gain expertise and experience working in this unique environment. All criminal investigator positions have been filled or identified with highly qualified and experienced investigators who bring extensive knowledge and practical experience to the SIGIR's investigations of contract and procurement fraud.

The SIGIR and the National Aeronautics and Space Administration-Office of the Inspector General (NASA-OIG) are currently working together to tailor an online case management system. The new SIGIR Online Reporting System (SORS) will allow agents access to a Web-based report and archive system that will increase the SIGIR's accuracy and speed while resolving criminal investigations. SORS is a significant advance in technology for the SIGIR, offering a number of key benefits, including:

- accessibility from anywhere
- a paperless case management system
- accurate archives
- an electronic approval system for supervisors

SIGIR Investigative Activity and Analysis

As of April 11, 2005, the SIGIR had received 131 potential criminal cases. Of these, 62 have been closed, 35 referred to other investigative agencies, and 34 remain open. Ten cases reported as potentially criminal in the SIGIR January 30, 2005 Report have been reclassified as administrative matters. Since January 30, 2005, the SIGIR closed 14 cases, referred 3 cases, and opened 7 cases.

SIGIR Case Summaries

These summaries demonstrate the range of SIGIR investigative activities during the reporting period:

- The SIGIR received allegations from officials at the PCO that a contractor was over-billing by \$15 million for oil pipeline repairs and security of pipelines. Investigation determined that the contractor did not provide either the anticipated number of personnel or the equipment promised in the contract. The contractor has since departed Iraq, but the PCO withheld \$15 million in payments to the contractor. The contractor is disputing these withholdings. As a result of the SIGIR investigation, the U.S. government is reviewing the circumstances that led to the withheld payments. The government must determine whether the withholdings are justified and whether the contractor is liable for additional amounts. Once adjudicated, the matter will be closed. (Case Number 0100-04)

- The Iraqi Ministry of Youth and Sports used a CPA contractor to coach an Iraqi amateur sports team that competed in a tournament in another country. The coach's assistant was a military service member who maintained a \$40,000 CPA cash fund intended for lodging, food, and necessary expenses during the trip. The service member lost \$20,000 of the money by gambling and admitted guilt. The service member's commander has been informed of the incident, and adjudication is pending. This case was originally discussed in the July 30, 2004 Report to Congress. (Case Number 0031-04)
- Working as a volunteer translator, a Kuwaiti citizen entered an Iraqi bank and demanded the exchange of approximately \$200,000 of Iraqi "Swiss" dinars for new Iraqi dinar notes, presenting letters from two CPA officials endorsing the exchange. Bank employees were reluctant to make the exchange—Iraqi "Swiss" dinars were not legal tender at the time—but they felt intimidated by the translator and the apparent authority of the letters. After an investigation, the translator returned \$29,000. One CPA official was reprimanded, no action was taken against the other CPA official, and the translator cannot be located. A recovery of \$29,000 is claimed in this matter. This case was originally discussed in the July 30, 2004 Report to Congress. (Case Number 0058-04)
- The PCO requested that SIGIR Audits conduct a review of contract documentation and construction of the Iraq National Assembly Building. The PCO was concerned about the quality of the construction, the awards process, and the monies obligated. SIGIR Audits completed its review with assistance from SIGIR Investigations. There were no indications of fraud, and this matter was closed. (Case Number 0004-05)
- The SIGIR received a Defense Contract Audit Agency (DCAA) Early Alert of a Suspected Irregularity relating to a violation of P.L. 99-634, "Anti-Kickback Enforcement Act of 1986." The complaint alleged that an administrator in an Iraqi facility was demanding kickbacks from subcontractors performing work at the facility. A preliminary investigation determined that the U.S. government had not lost any funds and that work was progressing on the renovations. The dispute arose between the prime contractor and the subcontractors about the cost and work performed. Because the administrator is an Iraqi citizen, the SIGIR referred this matter to the Ministry of Health, Inspector General. (Case Number 0010-05)
- The SIGIR received information that a former CPA employee, who had been hired by a contractor firm, attempted to obtain information from the Program Management Office (PMO) for a contract currently up for bid. On a second occasion, the employee again attempted to receive information from the PMO for another contract on which the contractor firm had a bid. The PMO employees rebuffed both attempts. No information was obtained, and contracts were not affected by these requests. The SIGIR found no indications of criminal activity and no loss of funds by the U.S. government. (Case Number 0101-04)

- The SIGIR received an allegation from the Defense Contract Management Agency that an Iraqi worker at the Baghdad airport had demanded a gratuity to unload cargo destined for the International Zone. No money was paid, and there was no disruption of service. The SIGIR referred the case to the Iraqi Ministries of Interior and Transportation. There have been no other reported attempts to extort monies at the airport. (Case Number 0077-04)
- SIGIR investigators received information that vehicles were being stolen from the Iraqi Ministry of Transportation and sold in Iran. A review of the material disclosed no involvement by the CPA, U.S. military or civilian organizations, or the Multi-National Force-Iraq (MNF-I). The SIGIR referred this issue to the Iraqi Ministry of Transportation, Inspector General. (Case Number 0107-04)
- The SIGIR received a complaint from an official at the PCO about security services provided by a contractor. The initial allegations developed into an investigation of the contract award process. The contracting officer was alleged to have overturned a contract review board decision to award the contract. The contracting officer submitted the justification to the CPA General Counsel for review; that office approved the contracting officer's decision and determined that the contract had been properly awarded. The case was closed based on the General Counsel's review. (Case Number 0001-05)

Table 2-2 organizes the 34 open cases by investigative category.

SIGIR Open Cases, as of April 11, 2005	
Investigative Category	Pending Cases
Procurement Fraud	6
Theft	6
Cost Mischarging/Product Substitution	5
Bribery/Kickbacks/Gratuities	4
Bid Rigging	3
Public Corruption (Iraq)	3
Computer Crimes	1
Conflict of Interest	1
Embezzlement	1
False Claims	1
Standards of Conduct Violation	0
Other	3

Table 2-2

SIGIR Hotline

The SIGIR Hotline is colocated with the Department of Defense Office of Inspector General (DoD OIG) Hotline. The DoD OIG Hotline exercises operational control over the SIGIR Hotline under a Memorandum of Agreement designed to maximize efficiency of Hotline operations.

The SIGIR Hotline facilitates the reporting of fraud, waste, abuse, mismanagement, and reprisal in all programs associated with Iraq reconstruction efforts funded by the American taxpayer. It receives walk-in, telephone, mail, fax, and online contacts from people in Iraq, the United States, and throughout the world. Currently, the Hotline is maintained by three staff members; a new investigator is scheduled for deployment to Baghdad in the next quarter.



January 1 – March 31, 2005 Reporting

As of March 31, 2005, the SIGIR Hotline had initiated 374 Hotline cases since its inception. A summary of these cases is provided in Table 2-3.

SIGIR Hotline Cases						
SIGIR Hotline	Received		Closed		Ongoing	
First Quarter	Jan-Mar 2005	Cumulative Total *	Jan-Mar 2005	Cumulative Total *	Jan-Mar 2005	Cumulative Total *
Admin Investigation	50	313	8	66	39	105
Dismiss	NA	NA	2	11	0	0
Transfer	NA	NA	5	58	0	0
Referral	NA	NA	6	46	0	0
Assist	NA	NA	3	27	0	0
FOIA	1	4	1	4	0	0
Admin Totals	51	317	25	212	39	105
Criminal Investigations	4	47	1	27	4	20
Audits	2	10	1	7	2	3
Totals	57	374	27	246	45	128

* The cumulative totals cover the period since the SIGIR Hotline began operations—from March 24, 2004, to March 31, 2005.
Note: Total cases received may not reflect the sum of the closed and ongoing cases.

Table 2-3

New Cases Received

From January 1–March 31, 2005, the SIGIR Hotline received 57 new cases and closed 27 cases. Of the 27 cases closed, 12 were received this quarter.

The 57 new cases were classified in these categories:

- 14 related to abuse.
- 10 related to fraud.
- 10 related to waste.
- 2 related to potential reprisal.
- 1 was a Freedom of Information Act request.
- 1 related to mismanagement.
- 19 were categorized as “other.”

Of the 57 new cases, 38 were received through the SIGIR Website. This summary shows these distribution of the 38 cases:

- 8 related to waste.
- 8 related to abuse.
- 4 related to fraud.
- 2 were requests for information or administrative assistance.
- 1 related to reprisal.
- 15 were categorized as “other.”

These are highlights of some of the significant cases received this quarter:

- A complaint, received through the SIGIR Hotline email system, alleges that an employee of a U.S. contractor, working on a CPA contract, is involved in the illegal purchase and storage of arms and munitions. SIGIR Criminal Investigations is investigating this case.
- A complaint, received through the SIGIR Hotline phone system in Baghdad, alleges that a U.S. government employee retired as a contracting officer and went to work for a contractor to whom he had previously awarded a contract. This complaint alleges a violation of the conflict of interest laws; SIGIR Hotline Investigations is investigating this complaint.
- A complaint from a U.S. contractor, received through the SIGIR Hotline email system, alleges that an Iraqi firm has offered a bribe of \$50,000 to include the Iraqi firm as a subcontractor on one of its contracts. SIGIR Hotline Investigations is investigating this complaint.
- A SIGIR Hotline complaint, received as an email to a SIGIR Hotline investigator, alleges many cases of corruption within the Iraqi ministries. The information will be transferred to the Iraqi Board of Supreme Audit (BSA) and the Iraqi Commission on Public Integrity (CPI).

Closed Cases

During the reporting period, 27 cases were closed. This summary shows the distribution of closed cases:

- 8 were closed by administrative investigations.
- 6 were closed by transfers to other Inspector General agencies.
- 5 were closed by referrals to non-U.S. government entities.
- 3 were closed by assists (requests for information or administrative assistance).
- 2 were dismissed for lack of sufficient information.
- 1 was forwarded to and closed by SIGIR Audit.
- 1 was forwarded to and closed by SIGIR Criminal Investigations.
- 1 was a FOIA request.

Of the eight cases closed by administrative investigations, three were substantiated and resolved. Because of insufficient information, three investigation cases were closed. Two investigations were closed as unsubstantiated.

These summaries highlight some of the cases closed by administrative investigations:

- The complainant alleged a hostile work environment within the PCO and unjustified termination of employment. The case was resolved as a result of consultation with the PCO Director, and the complainant's termination action was withdrawn. The complainant was placed on a Performance Improvement Plan (PIP) and has not received any further complaints of "substandard performance."
- A contractor alleged non-payment for services and goods that the company had delivered under contract with the CPA. As a result of the investigation, the complainant was paid for the services provided under these contracts. The complaint was resolved to the complainant's satisfaction and closed.
- The complainant requested assistance in determining the validity of a contract solicitation for several million dollars worth of vehicles and equipment to be delivered to Iraq. The SIGIR determined that the solicitation was invalid and the military organization sponsoring the solicitation does not exist. The SIGIR informed the complainant, and the case was closed as substantiated.

Transferred/Referred Cases

Most cases closed during this reporting period were either transferred to another Inspector General entity or referred to a non-Inspector General entity, generally non-U.S. government. The 11 cases fell into these categories:

- 3 were sent to a contractor's investigative unit.
- 2 were sent to the MNF-I IG
- 2 were sent to the DoD IG.

- 1 was sent to the DoS IG.
- 1 was sent to the U.S. Agency for International Development (USAID) IG.
- 1 was sent to the DoD IG Defense Criminal Investigative Service.
- 1 was sent to the Iraqi CPI.

Below are highlights of these cases:

- One case involved an individual who inquired about monies and property of the Iraq government that had originally been located in the Iraq Embassy in Jordan. Allegedly, the funds were physically transferred by U.S. military personnel in charge of the Humanitarian Assistance Coordination Center Office attached to the U.S. Embassy in Jordan. The SIGIR referred this case to the DoS IG.
- The complainant alleged that a contract solicitation submitted to the USAID was plagiarized by USAID employees and subsequently awarded to another company. The SIGIR referred this case to the USAID OIG.
- The complainant alleged that U.S. military personnel conducted an illegal search of a contractor's trailer. The SIGIR referred this case to the U.S. Army Criminal Investigative Division for action and resolution.

SIGIR Activities and Initiatives

In addition to its investigative and oversight activities, the SIGIR has continued to pursue several activities and initiatives begun by the CPA-IG. Each of these efforts advances the promotion of interagency communication and cooperation and combats fraud, waste, and abuse in the execution of Iraq reconstruction funds.

These SIGIR initiatives and activities include:

- Iraq Inspectors General Council
- Iraq Accountability Working Group
- Iraqi Ministry Inspector General Training
- Security and Insurance
- Lessons Learned/High-Risk Factors

Information on these initiatives and activities can be found at the SIGIR's new Web address: <http://www.sigir.mil>. The updated Website continues to provide stakeholders and the public with access to all of the SIGIR's Quarterly Reports. The SIGIR Website provides Quarterly Reports in English and Arabic. Audit reports are also available in English, and Arabic translations will soon be provided.

Coordinating With Other Oversight Agencies

The SIGIR continues to coordinate oversight activities for Iraq reconstruction programs through the Iraq Inspectors General Council (IIGC) in Arlington, VA, and the Iraq Accountability Working Group (IAWG) in Baghdad. For information on the oversight activities of agencies that participate in these groups, see Other Agency Oversight.

Iraq Inspectors General Council

Established by the CPA-IG on March 15, 2004, the IIGC provides a forum for discussion and collaboration among the inspectors general and staff of the many agencies involved in using and overseeing the Iraq Relief and Reconstruction Fund (IRRF). At IIGC meetings, representatives from member organizations exchange details of current and planned audits. The SIGIR also updates other organizations on its long-range audit planning and its staffing plans. This helps to identify opportunities for collaboration and to minimize duplication of oversight efforts. Members also share insights into the logistical challenges of performing oversight work in Iraq.

The Chairman of the U.S. Senate Committee on Homeland Security and Governmental Affairs recognized the value of the IIGC initiative in March 2005. The Committee ceased its requirement for organizations performing audits in Iraq to provide monthly status reports. The Committee Chairman's letter to these organizations—all members of the IIGC—recognized the comprehensive coordination of audit status in the SIGIR's Quarterly Reports.

The most recent IIGC meeting was held in Arlington, VA, on March 9, 2005. The next meeting is scheduled for May 2005.

The IIGC includes these members:

- Special Inspector General for Iraq Reconstruction (Chair)
- Department of State Inspector General (Co-Vice Chair)
- Department of Defense Inspector General (Co-Vice Chair)
- Department of the Army Inspector General
- U.S. Agency for International Development Inspector General
- Department of the Treasury Inspector General
- Department of Commerce Inspector General
- Department of Health and Human Services Inspector General
- Defense Contract Audit Agency
- U.S. Army Audit Agency
- Government Accountability Office (Observer Member)
- International Advisory and Monitoring Board (Observer Member)

The Chief Audit Executive of the U.S. Army Corps of Engineers will join as an observer. For information about the audits conducted by IIGC members, see Other Agency Oversight.

Iraq Accountability Working Group

The SIGIR formed the IAWG to complement the ongoing coordination provided by the IIGC in Arlington, VA. The IAWG is a forum for the forward-deployed audit staffs of the various federal agencies with audit presence in Iraq to coordinate audits, share data relative to Iraq relief and reconstruction, minimize audit disruption to clients, and avoid duplicative efforts.

During this reporting quarter, the IAWG met on January 15, 2005, and February 28, 2005, in the former Republican Presidential Palace in Baghdad, Iraq.

These organizations attended:

- Special Inspector General for Iraq Reconstruction
- U.S. Agency for International Development, Office of the Inspector General
- Defense Contract Audit Agency
- U.S. Army Corps of Engineers Gulf Region Division Audit Office
- Department of Treasury, Office of the Inspector General
- Department of Justice, Liaison to the Chief of Mission

After a February 21, 2005 meeting on investigatory coordination with the Deputy Chief of Mission, the IAWG invited federal agencies with investigatory staffs in Iraq to attend IAWG meetings to ensure effective coordination. Investigatory staffs began attending IAWG meetings on February 28, 2005.

During both the January 15, 2005 and February 28, 2005 meetings of the IAWG, audit representatives from each attending agency briefed each other and held question-and-answer sessions on the objectives, scope, and status of ongoing audits. The objectives, scope, and tentative start dates for planned audits were also briefed by representatives of each attending agency. The SIGIR Assistant Inspector General for Audit briefed attending members on the SIGIR Iraq Reconstruction Information System (SIRIS), established for projects, contracts, and task orders awarded using IRRF monies. The SIRIS will be made available to the other members of the IAWG.

Iraqi Ministry Inspector General Training

For more than a year, the SIGIR has been supporting the planning, development, and training of the Iraqi Inspector General System. The Iraqi IG system is a key partner in Iraq's commitment to prevent fraud, waste, and abuse through these anti-corruption organizations²:

- The Board of Supreme Audit (BSA) is an audit oversight institution with objectives similar to those of the U.S. Government Accountability Office.
- The Commission on Public Integrity (CPI) is an enforcement, education, and prevention agency with a broad scope of responsibility, analogous to the U.S. Federal Bureau of Investigation.
- The Iraqi Inspector General System comprises 29 ministry offices of inspectors general, performing audits, inspections, and investigations.

Iraqi Board of Supreme Audit

Staffed with 1,100 auditors and support personnel, the BSA now works in conjunction with the Iraqi IG system and the CPI to provide effective government oversight of fraud, waste, and abuse. The BSA is currently conducting major audits of the Development Fund for Iraq, off-shore cash transfers made by the Ministry of Defense and Ministry of Trade, the Iraq Oil-for-Food program, and separate audits on independent commissions and other non-ministry entities.

Iraqi Commission on Public Integrity

The CPI conducts criminal investigations and prosecutions, develops fraud prevention programs, and creates public awareness of the war on corruption. Since it began in June 2004, the CPI has transitioned from a staff of 40 American advisors to an Iraqi professional staff of nearly 200, with 15 U.S. advisors.

Iraqi Inspector General System

The Iraqi IG system is modeled on the current U.S. system of federal inspectors general. With offices in each Iraqi ministry, the Iraqi IGs are appointed by the Iraqi Prime Minister, but work for their respective ministers. Figure 2-1 shows the functional design of the IG within each ministry.

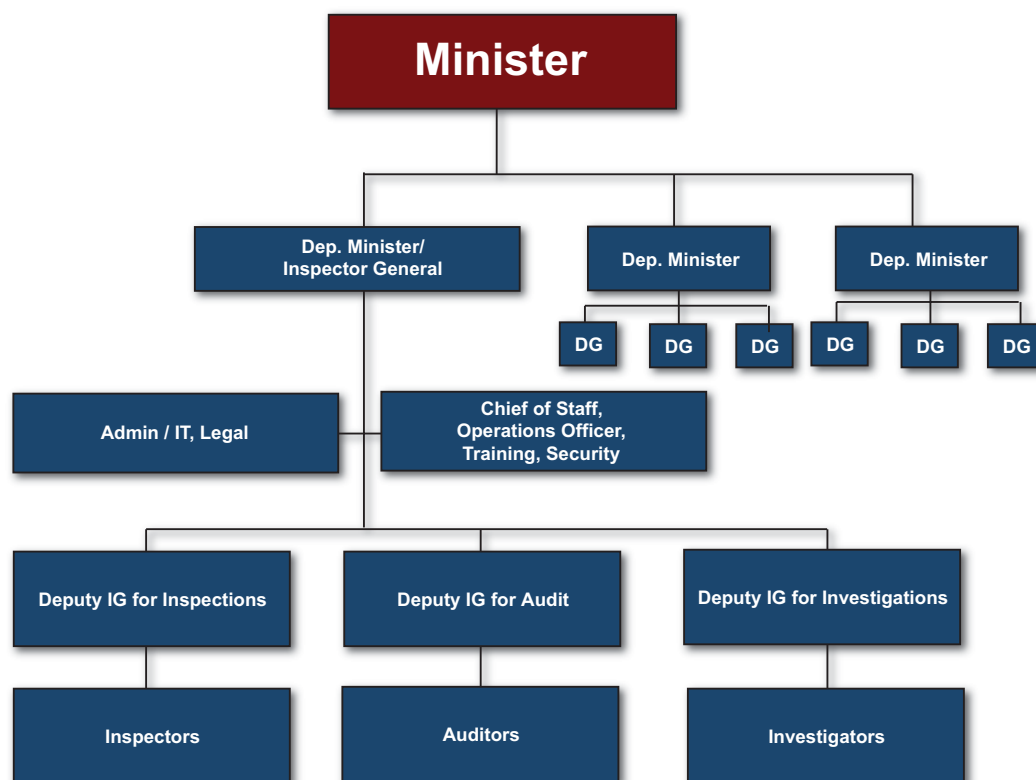


Figure 2-1

In March 2004, the CPA-IG (now the SIGIR) began addressing the gaps in planning and resources for the Iraqi IG system. The SIGIR team set out immediately to organize, train, and coach the Iraqi IGs, individually and collectively, on the processes needed to establish their offices. One member of the SIGIR IG team also served as the U.S. representative to the CPA for the ongoing selection and vetting of Iraqi IGs; final selection of the IGs was not completed until June 2004.

Iraqi Inspector General Activities

Total Iraqi IG staffing went from zero (only a year ago) to now slightly more than 1,400 personnel throughout the Iraqi IG system. IG offices in the largest ministries, such as Interior, Health, and Municipalities, are staffed with 150-400 personnel. Smaller offices in the ministries of Culture, Migration, and Human Rights, for example, may be staffed with only 10-20 personnel. All 29 Iraqi IG offices have provided personnel totals and estimates of work initiated and accomplished to date. Iraqi IG offices have grown at different rates, depending on available resources and ministry support. These are some of the highlights of the system, as of April 2005:

- More than 3,400 IG complaints have been registered, with more than 1,000 inspections conducted.
- 650 investigations have been conducted; approximately 10% have been referred to the CPI for prosecution in Iraqi courts.

- More than 800 audit reports have been initiated by the 29 IGs.
- On average, the typical IG office in Iraq has 42 personnel serving in audit, inspection, or investigation. Overall staffing of Iraqi IG offices is estimated at 50% of required levels.
- 310 auditors, 420 inspectors, and 270 investigators are working throughout the Iraqi IG system.
- IGs report improved relationships with interim ministers and better understanding of the value of IG functions in preventing ministry corruption and improving efficiency.

The SIGIR's Role in Developing the Iraqi Inspector General System

The SIGIR assisted the 29 Iraqi IGs in setting up their IG Association. Modeled after the President's Commission on Integrity and Efficiency (PCIE), the IG Association elected leaders and committed to study special issues of interest. The IG Association became an ongoing forum for discussing common obstacles and concerns, as well as sharing lessons learned.

In June 2004, the SIGIR initiated efforts to request funding for the system of 29 Offices of Inspector General, including salaries, office supplies, vehicles, security, and training. This resulted in an allocation of \$11 million of DFI funds. With the help of the CPI Commissioner, the allocation was distributed across all Iraqi Offices of Inspectors General by September 2004, when they began building their operational capacity to fight fraud, waste, and abuse.

Training

Since April 2004, the SIGIR has sponsored monthly seminars for the IGs and their deputies on a number of essential functions, including audits, inspections, investigations, assistance, and standards. The SIGIR also coordinated specially tailored training programs at the Sadat Academy in Cairo and in London for IG management, leadership, audit, inspections, and investigations. During October, November, and December 2004, 640 Iraqi auditors, inspectors, and investigators from the IG system and the BSA completed resident functional courses in Cairo in each of their respective areas. This training experience provided a common foundation in each of the three basic anti-corruption fact-finding methods.

While the Iraqi IG staffs were being trained, all IGs and the senior directors at the BSA attended special leadership and management training courses—first in Egypt for one week, and then in London for two weeks. The SIGIR tailored courses for high-level supervisors on up-to-date management and leadership techniques, metrics, and other tools to help the Iraqi IGs effectively manage large government anti-corruption staffs.

The CPI Commissioner has also provided training opportunities for the IGs in leadership, integrity, investigations, and internal audit. In further support of the system, the Commissioner has advocated on behalf of the Inspectors General with the Iraqi Interim Government.

During the Iraqi election process, the SIGIR assessed the current status of the Iraqi IG system. The assessment revealed these issues:

- There is no institutional gateway and permanent training mechanism for growing new IG professional staff in the areas of IG audits, inspections, and investigations.
- The system lacks a stable training mechanism to imbue the principles of democracy, ethics in government, transparency, and principled leadership.

The Iraqi IG system has many challenges yet to overcome. The SIGIR assessment shows that support measures must be addressed vigorously in 2005 to ensure that the system remains viable.

Security and Insurance

The dangerous security environment in Iraq has resulted in a significant loss of life and has reduced the resources dedicated to the country's reconstruction. The threat to life and property continues to be a major barrier to the reconstruction and rehabilitation of Iraq, and the fiscal impact of providing security is the source of ongoing examinations and congressionally directed probes. Despite the management of area-wide security by U.S. military forces and Iraqi forces (undergoing IRRF-funded training), the need for site-specific and personal security requirements of civilian contract employees continues. As long as the security threat to projects and employees persists, significant security costs will continue to be incurred.

The Defense Base Act (DBA) requires insurance coverage for employees performing work on contracts funded by the U.S. government. Functioning as a workers' compensation program, DBA insurance provides work- and war-related compensation for contractor injuries. In the event of death, DBA insurance provides for lost wages and/or survivor benefits for injury or other work interruptions, such as kidnapping. If war risk is found, the U.S. government reimburses insurance carriers for their costs and assumes responsibility for future payments. The rising number of DBA claims underscores both the dangers currently faced in reconstruction activities and the continuing costs arising from the current environment.

In the first quarter of 2005, 44 new contractor death cases have been opened, compared to 97 U.S. military deaths during the same time period.

Security and the Human Toll

Currently, information about civilian contractor casualties and deaths of U.S. citizens in Iraq is collected by two U.S. civilian agencies under separate statutory requirements that preceded the ongoing reconstruction and rehabilitation efforts in the country:

- The Division of Longshore and Harbor Workers' Compensation of the Department of Labor (DoL) processes workers' compensation claims. These claims range from office injuries to claims for missing or deceased employees of contractors and subcontractors employed in U.S.-funded public works or services projects outside of the United States (48 U.S.C. 1651). Claims are processed on the basis of employment status, without regard to citizenship.
- The Department of State (DoS) is also required to report the country and locality of all deaths of U.S. citizens that result from unnatural causes [Public Law 107-228, § 204(c)]. Deaths of U.S. military personnel and U.S. government officials are excluded from these reports.

The MNF-I has also collected data on civilian deaths, and the Congress has directed the Secretary of Defense to provide detailed reports in coming periods.

As of March 31, 2005, death claims for civilians working on U.S. government-funded contracts in Iraq had risen to 276—a 19.0% increase over the 232 claims reported as of December 31, 2004.

As of March 31, 2005, 2,582 DBA claims have been submitted for civilians working for U.S. contractors in Iraq. In addition to the death claims, the overall number of claims has grown by 45.2%, from 1,778 submitted as of December 31, 2004. Since December 31, 2004, the number of claims for those missing more than four days of work has risen 42.9%, to 1,040 claims as of March 31, 2005. The DoL does not report death cases by cause of death. For details, see Figure 2-2.

Reporting only on U.S. citizens, the DoS recorded 95 civilian, non-official deaths in Iraq between April 4, 2003, and March 31, 2005. Eighty of the U.S. deaths recorded since the end of the war are attributable to terrorist action; vehicle accidents (10), drowning (2), homicide (2), and other accidents (1) account for the remainder. Although not all U.S. citizen deaths reported by the DoS in Iraq are contractors, deaths reported by the DoS and contractor death cases reported by the DoL are roughly comparable for U.S. citizens. Analysis suggests that the non-U.S. contractors involved in reconstruction activities in Iraq are losing their lives more frequently than U.S. contractors. As shown in Figure 2-2, the reported deaths of non-U.S. citizens make up a larger portion of DBA cases over time. The DoS records U.S. citizen deaths in Iraq soon after they occur; however, DBA case claims do not specifically refer to the date of the incident.

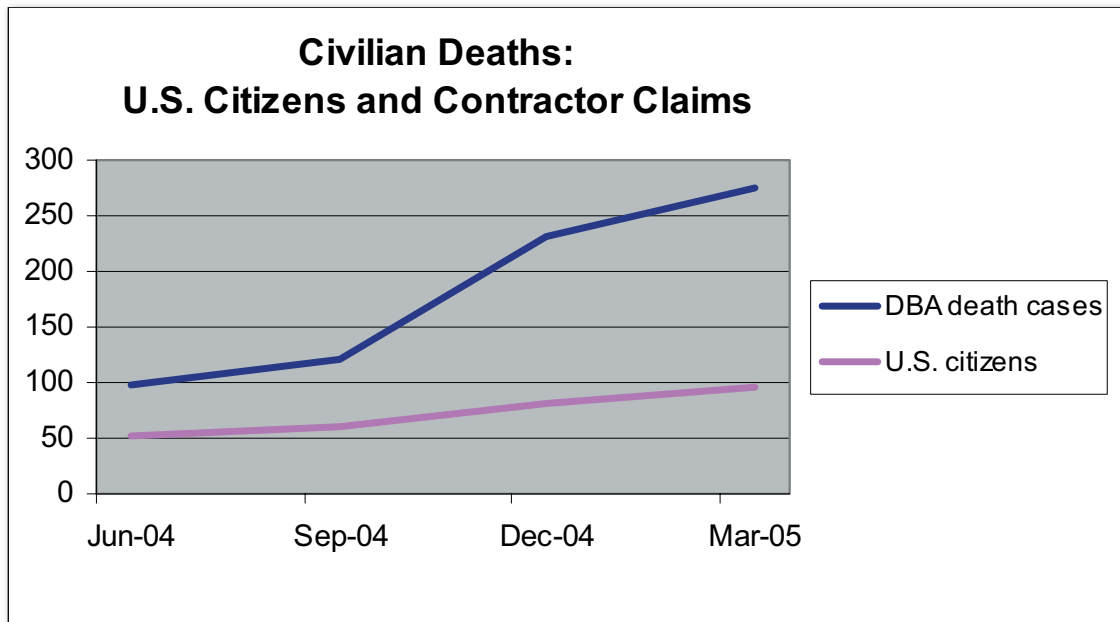


Figure 2-2

Because of the human and fiscal costs associated with the threat to security, P.L. 108-375, the FY 2005 National Defense Authorization Act, §1206, directed the Secretary of Defense to report to Congress:

- a specification of casualty and fatality figures for contractor employees supporting deployed forces and reconstruction efforts in Iraq
- a description of incidents in which contractor employees supporting deployed forces and reconstruction efforts in Iraq have been engaged in hostile fire or other incidents of note

P.L. 108-375 requires the Secretary of Defense to submit a report on April 29, 2005, to the Senate Committee on Armed Services and the House Committee on Armed Services. The Department of Defense (DoD) tasked the coordination of the report to the PCO.

The Cost of Security

The USAID OIG provides the only currently available data on the cost of security for U.S. contractors operating in Iraq. In the process of performing audits on costs incurred for completed contracts, the USAID OIG has tasked the DCAA to segregate disbursements for security costs from total audited costs. The DCAA methodology did not capture security costs on contracts that it did not audit and thus did not include a review of all USAID contracts.

On cost-incurred audits of USAID contracts totaling \$673.8 million, \$70.8 million (10.5%) were identified as security costs, according to the USAID OIG. The USAID also showed that the portion of security costs-to-total audited contract costs increased

substantially for audit periods extending beyond February 29, 2004—428.5% more than the security costs-to-total audited costs before that date. For details, see Table 2-4.

Security Costs in USAID Cost-Incurred Audits, as of March 31, 2005		
	March 2003–February 2004	March–December 2004
Total Audited Costs	\$439,465,813	\$234,381,472
Security Costs	\$18,550,130	\$52,286,158
Security Costs-to-total Audited Costs	4.2%	22.3%

Table 2-4

Further Inquiry

The Congress asked the Government Accountability Office (GAO) to examine the U.S. government's reliance on private firms to provide security in Iraq. The GAO's engagement focuses on planning for the use of private security contractors in Iraq, the management controls established to provide visibility on security providers and security-related expenses, the relationship between the DoD and private security contractors in Iraq, and the impact of private security providers on military retention. The GAO will issue a final report to Congress in the coming months. The SIGIR continues to discuss these issues with the GAO, but is not directly supporting the work.

The cost of providing security for reconstruction activities is the source of considerable interest because of its impact on the use of available reconstruction funds. P.L. 108-375, §1206, directs the Secretary of Defense to prepare:

a plan for establishing and implementing a process for collecting data on individual contractors, the value of the contracts, the number of casualties incurred, and the number of personnel in Iraq performing the following services for the Department of Defense and other federal agencies:

- personal security details
- non-military site security
- non-military convoy security

Defense Base Act Insurance

The DoS and USAID have long-established, centrally managed Defense Base Act (DBA) insurance programs that provide direct contractors with a guaranteed rate of employee remuneration and no minimum premium. The DoD has no similar program for direct contractors. The DoD direct contractors are responsible for securing DBA insurance at whatever rates and minimum premiums the requirement-driven market will bear.

According to information provided by the DoL, several hundred incidents have also been reported in Kuwait, where companies involved in Iraq reconstruction have logistics and support operations.

In promoting a centrally managed program, the U.S. Army Corps of Engineers (USACE) has identified several impediments to economically and efficiently providing DBA insurance. The CPA-IG's July 30, 2004 Report highlighted many of the same concerns. On March 7, 2005, the USACE issued a solicitation to "Provide a Source for a Contract Pilot Program of Centrally-Managed Workers' Compensation Insurance as Required by the Defense Base Act" (W912HQ-05-R-0004).

These are the goals of the USACE pilot program:

- Address concerns about providing the best overall value to the nation in meeting the legal requirements of the DBA.
- Encourage effective competition and assured availability and affordability of DBA insurance.

On April 1, 2005, the USACE issued a technical amendment; the solicitation period closed on April 7, 2005.

Lessons Learned/High-Risk Factors

Recent experiences in the post-conflict environments of Afghanistan and Iraq highlight the lack of an integrated stabilization and reconstruction (S&R) capability within the U.S. government. Consequently, the SIGIR established a Lessons Learned/High-Risk Factors (LL/HRF) initiative to identify the most prominent risk factors and lessons learned associated with current S&R operations in Iraq. The SIGIR is using its unique multi-agency mission to collect and analyze current lessons learned and high-risk factors products from other government and non-government entities and to collect its own observations and data. The SIGIR will present the results of this analysis to policy-makers and U.S. government organizations developing S&R capabilities. This initiative does not necessarily draw on results of audit activity, and methods of data collection do not permit statistical analysis.

A key product from the LL/HRF initiative will be a report based on a review of relevant studies, articles, and lessons learned reports; interviews; and comments collected through the SIGIR's Individual Data Collection (IDC). The IDC was designed to collect the observations and views of former CPA and associated Iraq reconstruction participants. However, it was not performed using scientific or statistical methods. As of April 30, 2005, the LL/HRF team has compiled information from more than 350 interviews, reports, and studies and archived more than 225 responses to the IDC. The SIGIR's objective is to build a central repository for lessons learned materials and work with other government organizations currently conducting similar interagency or internal reviews. These are the objectives of this initiative:

- Provide a capping report on the SIGIR's previous duties as the CPA-IG.
- Augment the SIGIR's oversight of the \$18.4 billion IRRF.

- Identify challenges and assess areas of continued risk to focus and direct future mitigation efforts.
- Participate in the creation and coordination of policies, procedures, and reforms that will improve current reconstruction operations in Iraq and future S&R missions.

Most of the data compiled by the SIGIR reflects the complex and broad nature of the challenges that coalition personnel have faced. The SIGIR continues to catalog recommendations, creative solutions, success stories, and best practices of the personnel who served or supported the Office of Reconstruction and Humanitarian Assistance (ORHA), CPA, and U.S. Mission Iraq. The opinions reflected in the Lessons Learned initiative are not the SIGIR's, but those of the respondents.

The SIGIR also identified specific risks and challenges that have emerged in the studies, interviews, and IDC responses. These risk factors can be grouped in seven categories, which are arranged below from the most frequently identified to the least frequently identified areas of concern:

1. Security
2. Program Management
3. Strategic Communications
4. Human Resources
5. Acquisition (Contracting)
6. Financial Management
7. Logistics

For this Report, the SIGIR has included a synopsis of the four most commonly observed areas. The first full report will be issued in Summer 2005. Thus, the narrative in this Quarterly Report is preliminary and will be more fully addressed in subsequent Lessons Learned reporting.

Security

Reconstruction and security are interrelated: each depends on the other, and Iraqis who benefit from the great strides in reconstruction are less likely to oppose foreigners in their land. As the war ended, coalition forces were unable to maintain public order, and the resultant looting significantly set back reconstruction efforts—by months, according to some former CPA members. Indeed, most Iraqi ministries were stripped bare and burned, and the insurgency grew as reconstruction programs lagged. The lack of civil security is consistently viewed as the single greatest threat to improve stability and overall reconstruction effectiveness in Iraq.

Work to establish and train a new Iraqi police force and Army has been difficult, but results are improving. The CPA's policy decisions on disarmament, demobilization, reintegration, and de-Ba'athification have been criticized. Some have noted that formally

disbanding the Iraqi Army threw thousands of military-trained males into unemployment. And others observed that de-Ba'athification denied Iraq the benefits of qualified personnel and reduced their stake in the new Iraq.

Responses to the IDC indicate that security is the foremost concern of nearly every IDC participant. Examples of comments made by IDC participants who observed the situation first-hand include:

- “The day-to-day life of countless average Iraqis deteriorated with the security situation. With this deterioration of the quality of life comes the willingness to sympathize with the insurgency and terrorists, which gives their message more credibility.”
- “Not properly securing major infrastructure projects will be one of the major risks over the next year. Properly securing them will have a two-fold benefit. It gets people to work, and it improves the quality of life for the Iraqi citizens.”
- “There are more AK-47s in Iraq than ice cream cones on Coney Island in August.”

The congressional testimony of Joseph A. Christoff, Director of International Affairs and Trade, of the GAO, underscored the importance and some of the deficiencies of coalition efforts to improve security:

- “As of mid-December 2004, paramilitary training for a high-threat hostile environment was not part of the curriculum for new (Iraqi) recruits.”
- “In early 2005, the commanding general of the Multi-National Security Transition Command-Iraq said that MNF-I had begun work on a system to assess Iraqi capabilities...It is unclear at this time whether the system under development would provide adequate measures for determining the capability of Iraqi police.”

Mr. Christoff testified on March 14, 2005, at the Hearing on Building Iraqi Security Forces of the House Government Reform Committee, Subcommittee on National Security, Emerging Threats, and International Relations.

A December 2004 Center for Strategic and International Studies (CSIS) report, *Estimated Breakdown of Funding Flows for Iraq's Reconstruction: How Are the Funds Being Spent*, addresses another aspect of security—the cost:

- “Estimates about the amount of U.S. reconstruction funds being spent on security for U.S. contractors vary widely, with a low-end estimate of 15% and high-end estimates ranging from 50-70%.”

Program Management

Program management includes the centralized efforts of the ORHA, CPA, and Iraq Reconstruction Management Office (IRMO) to execute the over-arching reconstruction plans in Iraq, including control and oversight of numerous ongoing projects, coordination of various organizations participating in reconstruction activities, and monitoring budgets and schedules. Program managers are ultimately accountable for reconstruction project results, but delegate responsibility for individual projects and accountability for specific results to subordinate organizations.

There is no known precedent for an effort to manage reconstruction of a nation on such a vast scale in the midst of danger and violence. The observations of the IDC and interview participants paint a picture of uneven management performance. Questions remain about the suitability of the strategy and planning for reconstruction and the effectiveness of coordination among numerous involved organizations and entities. To what extent did leadership anticipate the complications from security, heavy reliance on contractors, regulations, turf disputes, and politics? Was sufficient attention paid to establishing an effective organization to provide central control, authority, consistency, and accountability?

The research findings provide many observations of management problems that have hindered progress in reconstruction. IDC and interview participants frequently expressed concerns about program management, particularly poor inter-agency coordination, and bureaucracy. These examples are statements made by IDC and interview participants:

- “We failed to coordinate efforts of the NGOs to ensure that there was no duplication of efforts as well as to attempt to get closer to our stated objectives.”
- “Multi-layered bureaucracy caused great delays in projects.”
- “I was required to jump through hoops of convoluted processes and to suffer bureaucrats who knew neither technology nor industry.”

In addition to interview and IDC participants, other sources have identified similar management deficiencies in the Iraq reconstruction. In its report, *Establishing Governance Structures in Iraq, From OIF to the End of CPA: Lessons Identified* (undated), the United States Institute for Peace (USIP) postulates that the CPA was slow, bureaucratic, and lacked the ability to properly manage and coordinate the reconstruction efforts:

- “CPA was known to be bureaucratic, ponderous and slow ... this further undermined [CPA’s] credibility, giving it a reputation for lack of follow-through, and frustrated military commanders who often simply gave up working with CPA and used CERP funds for a smaller project instead, just to get something going.”

- “... there is simply a lack of capacity in U.S. civilian agencies and organizations to mobilize large numbers of the right people quickly.”
- “Even when CPA coordinators arrived in the provinces, they were largely on their own ... with no real connection to headquarters in Baghdad. This significantly hampered CPA’s ability to ever really link local and national government structures.”

The Council on Foreign Relations discusses similar concerns in two publications:

- “Coalition personnel do not coordinate with each other enough. Baghdad and the field are often completely cut off from each other and as a result, efforts in the field are not supported and decisions in Baghdad are often misdirected.” (*After Saddam: Assessing the Reconstruction of Iraq*, January 12, 2004)
- “Bureaucratic red tape has also slowed work. The Project Management Office ... didn’t award any contracts before March 2004.” (*Iraq Reconstruction*, September 2, 2004)

Strategic Communications

The intent of a strategic communications program is to use various means of communication to achieve desired outcomes. Strategic communications help to manage expectations, establish legitimacy and support for operations; maintain credibility; and mitigate fears, mistrust, and unrest. In Iraq, these programs were intended to enable political leaders and policymakers to influence the behaviors of adversaries, allies, or citizens through the emphasis of core messages. Public diplomacy, public affairs, information operations, the media, and military information campaigns were not used for this effort.

The observations of IDC participants suggest that the U.S. strategic communication efforts in Iraq struggled in key areas, such as designing or executing a comprehensive and integrated communication strategy, empowering the voice of the average Iraqi locally or nationally, and effectively employing television and radio programming. Examples of comments made by IDC participants include:

- “There isn’t enough outreach, involvement, and input from various segments of the Iraqi people.”
- “There is a clear lack of a sophisticated information campaign. We are not tapping into Iraqi television, radio, or newspapers sufficiently to take our message to the people.”

Furthermore, a principal finding of the Defense Science Board’s report on strategic communications—chartered by the Secretary of Defense—published in September 2004, states: “In the war of ideas or the struggle for hearts and minds...American efforts have not only failed, they may also have achieved the opposite of what they intended.”

In the CPA Baghdad's Personnel Assessment Team Report to the Secretary of Defense in February 2004, the team made the following "key observations":

- "The ability to communicate broadly with Iraqi citizens is very limited because of an ineffective outreach program and found that members of these important communities – business and religious leaders and academics—were anxious for direct contacts and relationships with Americans."
- "Iraqis are puzzled; they truly don't know what the U.S. really intends for them. We haven't communicated well. The 'story' has not been believed."

Human Resources

The turbulent and fast-paced S&R mission should have been staffed by the "best and brightest" from the coalition and Iraqi governments. Unfortunately, in the surge to launch the reconstruction effort, observers suggest that the ORHA, and subsequently the CPA, did not effectively recruit, develop, and retain personnel with the innovative leadership and technical skills needed to leverage the network of contractors rebuilding Iraq. Human resources issues are associated with organizational design; manpower requirements; recruiting, screening, hiring, on-boarding, and staffing; and rotation scheduling.

IDC respondents reported these human resources risk factors as current challenges for successful reconstruction:

- *Organizational structure/staffing levels*: Incomplete and ineffective personnel planning—including the development of inter-agency manning requirements, position descriptions, specified roles and responsibilities, and coalition participation—was cited as a risk factor.
- *Recruiting/Retention*: The inability to attract and retain the "specialized" talent required to effectively execute the reconstruction mission because of work/risk concerns, high operations tempo, and high-stress environment was cited as a risk factor.
- *Rotation Planning*: Poor tenure/rotation planning and transition management, which resulted in significant turnover, consistently "gapped" billets, poor project continuity, and a lack of consistency with Iraqi counterparts, was cited as a risk factor.
- *Capacity Building*: Delayed recognition of the value added by integrating Iraqi leadership and management into the oversight and administration of reconstruction efforts and the deliberate development of host-nation capacity to assist/continue the execution of the reconstruction mission were cited as a risk factor.

Both the USIP *Special Report on Iraq Reconstruction* and the Personnel Assessment Team chartered by the DoD made similar observations and provided these comments:

- “We in essence have a pick-up organization in place to design and execute the most demanding transformation in recent history.” (*Personnel Assessment Team Report to the Secretary of Defense*, February 11, 2004)
- The CPA personnel operations in Baghdad did not establish sufficient control of the personnel process.
 - There was inadequate personnel staffing with the CPA never more than 70% staffed against planned targets.
 - Ad hoc recruiting and “battlefield commissions” put personnel without proper skills in critical roles.
 - There is no transition control to guide the frequent personnel turnover with the consequent loss of continuity of operations.

Future Steps

The SIGIR Lessons Learned initiative provides a valuable opportunity for participants in Iraq reconstruction to voice the successes, best practices, and challenges facing the S&R community. The SIGIR will leverage this information in its continuing efforts to identify, assess, and mitigate the risks associated with the ongoing mission in Iraq. The SIGIR will offer the perspectives captured in these lessons learned to those charged with coordinating the interagency effort to improve the policies, plans, and procedures supporting future S&R operations.

In the summer of 2005, the SIGIR will release a complete report of the Lessons Learned initiative on its Website at <http://www.sigir.mil>.

Other Agency Oversight

Several agencies, including members of the IIGC, perform audits and investigations of Iraq reconstruction. This section highlights their oversight.

Other Agency Audits

The SIGIR formed the IIGC to aid in coordinating the oversight of Iraq relief and reconstruction programs. This section provides audit updates from IIGC member agencies.

Department of Defense

From January to April 2005, the DoD OIG performed audits covering a range of topics related to Iraq, including the U.S. government's relationship with the Iraqi National Congress and an assessment of Iraq police training. The DoD OIG did not complete any audits on Iraq reconstruction during this period.

Current Audits and Assessments

Joint Department of Defense (DoD)/Department of State (DoS) Assessment of Iraq Police Training (D2005-DIPOE1-00034-000)

On October 7, 2004, the DoD Inspector General, in conjunction with the DoS, announced this joint project to assess the Iraq Police Training Program. The review is evaluating all phases of the training effort for Iraqi police forces, including recruitment, screening, and selection of trainees; training curriculum, standardization, and results/effectiveness; and follow-on procedures, such as assignment of trained forces, refresher and specialized training, leadership development, retention rates, and mentoring. The review is also assessing the progress in equipping police forces and the internal control measures to monitor training and equipment accountability. Fieldwork was completed in Jordan in February 2005 and in Iraq in March 2005. The final report will be released in May 2005.

Review of the U.S. Government's Relationship with the Iraqi National Congress (Project No. D2005-DINTEL-0122)

On February 14, 2005, the DoD Inspector General announced this project to assess the U.S. government's relationship with the Iraqi National Congress. The objective is to respond to direction from the House Appropriations Committee; specific objectives are classified. The DoD OIG has begun research on the project.

Department of State

The DoS has three auditors in Washington, D.C., who are assigned full-time to Iraq-related work. Audit reports surveying DoS funding for Iraq; confirming fuel overcharges at the police academy in Amman, Jordan; and performing a pre-award review of a security contract were issued in February and March of 2005.

Fieldwork has begun on an incurred-cost audit of a de-mining contract, on a review of the Logistics Civilian Augmentation Program (LOGCAP) contract's housing costs, and on the Bureau of Diplomatic Security's armored vehicle procurement. Two of these audits will be conducted by contractors. A survey of security programs at U.S. Mission Iraq is nearing completion. As projected, fieldwork for a joint DoS-DoD review of the Iraq police training program has been completed.

U.S. Agency for International Development

The USAID OIG has two ongoing audits since the January 30, 2005 Report. These efforts are being accomplished in Iraq. The USAID OIG continued to monitor 20 DCAA audits that are being conducted at the request of USAID OIG. The USAID OIG also completed three audits on Iraq reconstruction during this reporting period.

Completed Audits

Since the January 30, 2005 Report, the USAID OIG has completed three audits on federal regulation compliance, Iraq's community action programs, and Iraqi health care activities.

In addition to the USAID OIG audits discussed below, the DCAA completed eight financial audits for the USAID OIG during this reporting period. The audits covered costs incurred under various contracts. These audits covered \$141,061,183 in USAID funds and questioned costs of \$5,591,822. The USAID/Iraq must determine allowability and take appropriate action.

USAID's Compliance with Federal Regulations in Awarding the Contract for Security Services in Iraq to Kroll Government Services International Inc.

(Audit Report # A-267-05-005-P), issued January 6, 2005

The objective of this audit was to determine if USAID complied with federal regulations in awarding the Iraq Security contract. The audit revealed that USAID:

- did not adequately document using less than full and open competition or explain its choice of contractor
- used a letter contract that did not meet FAR requirements
- incurred potential funds control violations in connection with obtaining security services from Kroll
- purchased armored vehicles that did not meet U.S. government armor standards and did not adequately document the \$1.9 million cost of these vehicles

The USAID OIG recommended that the USAID issue notices reminding contracting personnel that: (1) adequate and complete documentation be prepared and retained, and (2) all USAID procurements are subject to federal procurement regulations. The USAID OIG also recommended that the USAID review potential funds control violations and change its policies on contractors' purchases of armored vehicles.

USAID/Iraq Community Action Program

(Audit Report # E-267-05-001-P), issued January 31, 2005

The objective of this audit was to determine whether USAID/Iraq's Community Action Program (CAP) achieved intended outputs. The audit revealed that intended outputs were achieved. Based on a statistical sample of sample projects, the CAP achieved 98% of intended outputs, including citizen participation and inter-community and local government cooperation. However, data in projects lists used for monitoring and reporting did not always agree with supporting documentation. The report contained one recommendation to improve this process.

USAID/Iraq's Health System Strengthening Contract Activities

(Audit Report # E-267-05-002-P), issued February 28, 2005

The objective of this audit was to determine whether the USAID/Iraq's health care activities achieved intended outputs. The audit revealed that the contractor, in implementing its activities, often did not achieve intended outputs. A review of documentation showed that 60% of implemented activities did not achieve intended outputs.

The contract has since expired. However, the USAID OIG recommended that the USAID/Iraq develop written procedures for the review and approval of requests for modifications to future health sector contracts.

Current Audits

The USAID OIG began two audits since the January 30, 2005 Report. These audits include Iraq's electrical generation activities and water and sanitation activities.

Audit of USAID/Iraq's Electrical Generation Activities

This audit has two objectives:

- Are USAID/Iraq's electrical power sector projects achieving their planned outputs?
- Is USAID/Iraq addressing institutional capacity-building in its projects to rebuild and rehabilitate Iraq's electrical power sector infrastructure?

Audit of USAID/Iraq's Water and Sanitation Activities

The audit has two objectives:

- Are USAID/Iraq's water and sanitation rehabilitation projects achieving their planned outputs?
- Is USAID/Iraq addressing institutional capacity-building in its projects to rebuild and rehabilitate Iraq's water and sanitation sector infrastructure?

Government Accountability Office

Since the January 30, 2005 Report, the Government Accountability Office (GAO) reported eight ongoing audits on the Iraq reconstruction effort. Additionally, on March 14, 2005, the Director, International Affairs and Trade, provided testimony to the House of Representatives Committee on Government Reform addressing the challenges in transferring security responsibilities to the Iraqi military and police.

Issued Reports

Defense Logistics: High-Level DoD Coordination Is Needed to Further Improve the Management of the Army's LOGCAP Contract, GAO-05-328, March 21, 2005

The Logistics Civil Augmentation Program (LOGCAP) is an Army program that plans for the use of a private-sector contractor to support worldwide contingency operations. Examples of the types of support available include laundry and bath, food service, sanitation, billeting, maintenance, and power generation. The LOGCAP has been used extensively to support U.S. forces in recent operations in southwest Asia, with more than \$15 billion in estimated work as of January 2005. The GAO has issued two reports on the LOGCAP since 1997 that made recommendations to improve the Army's management of the contract; broader issues on coordination of the LOGCAP's contract functions were beyond the scope of GAO's earlier work. This report assesses the extent to which the Army is taking action to improve the management and oversight of the LOGCAP and whether further opportunities for using this contract effectively exist.

The Army has taken or is in the process of taking actions to improve the management and oversight of the LOGCAP on the basis of GAO's earlier reporting. The actions that the Army has completed or has underway include (1) rewriting its guidance, including its field manual for using contractors on the battlefield and its primary regulation for obtaining contractor support in wartime operations; (2) implementing near- and longer-term training for commanders and logisticians in using the contract; (3) developing a deployable unit to assist commands using the LOGCAP; (4) restructuring the LOGCAP contracting office to provide additional personnel resources in key areas; and (5) taking steps to eliminate the backlog of contract task orders awaiting definitization—that is, coming to agreement on the terms, specifications, and price of the task orders—and conducting award fee boards. While improvements have been made, the GAO believes

that the Department of Defense (DoD) and the Army need to take additional action in two areas.

First, although the DoD continues to agree with GAO's July 2004 recommendation to create teams of subject matter experts to review contract activities for economy and efficiency, it has not done so yet because the need to respond to statutory requirements took precedence. Prior GAO reviews have shown that when commanders look for savings in contract activities, they generally find them.

The second area needing attention is the coordination of contract activities between DoD components involved with using the LOGCAP. While the Army Materiel Command (AMC) is the executive agent for the LOGCAP, other DoD components also play important LOGCAP roles, including the combatant commander, individual deployed units, and the Defense Contract Management Agency. The effective and efficient use of the contract depends on the coordinated activities of each of these agencies. However, at the DoD level, no one is responsible for overall leadership in using the contract and, while the AMC has sought to influence the way in which the other components carry out their roles, it does not have command authority over the other components and thus its influence is limited. For example, the AMC knew that planning for the use of the LOGCAP for Operation Iraqi Freedom was not comprehensive, but AMC lacked the command authority to direct better planning. AMC officials believe that training will resolve these problems over time. However, given the importance of the LOGCAP to supporting military operations and the billions of dollars being spent on LOGCAP activities, the GAO believes that more immediate and direct oversight is needed.

The GAO recommends that the Secretary of Defense designate a LOGCAP coordinator who would be responsible for ensuring that the contract is being used both effectively and efficiently. The GAO did not suggest a change in command and control relationships or contractual authority. In written comments on a draft of this report, the DoD stated that it concurred with the report and its recommendations. The DoD stated that a recently issued instruction creates the position of Defense Logistics Executive who will be responsible for DoD logistics and global supply chain management, including oversight of logistics support contracts, such as the Army's LOGCAP contract. The DoD also stated that this executive would advise the Secretary of unresolved differences among the DoD components on how best to use the LOGCAP.

Current Audits

Private Security Contractors

The uncertain security environment in Iraq has led the DoD; civilian agencies, such as the DoS and the USAID; and the contractors responsible for rebuilding Iraq to employ private security companies to protect personnel and property. More than 20,000 individuals are believed to be providing security services, while some reports indicate that half of reconstruction contract dollars are being used to pay for security. (1) To what extent did agencies address security needs when planning for and awarding Iraq

reconstruction contracts? (2) What management controls did agencies establish to provide visibility on security providers and on security-related expenses? (3) To what extent does the U.S. military have command and control over and responsibilities for private security contractors in Iraq? (4) Has the increased use of private security contractors affected military retention?

Improving Iraq's Security

As of March 2004, the United States had obligated about \$58.5 billion to stabilize security in Iraq—about \$57.3 billion for U.S. military operations and \$1.2 billion for Iraqi security forces.

- What is the MNF-I and Iraqi strategy for coordinating security operations and transferring security missions to the Iraqi government security forces?
- What challenges does MNF-I face in transferring the security mission to Iraqi institutions?

The Army's Progress in Improving the Management and Oversight of Logistics Support Contracts

Since 1997, the GAO has issued three reports on the Army's use of logistics support contracts to provide supplies and services in support of major contingencies. These reports show the difficulties in controlling the costs of these contracts and ensuring that services are provided economically and efficiently.

- What progress has the Army made in improving the management and oversight of its logistics support contracts?
- Are there other continuing impediments to using logistics support contracts effectively?

Insurance Issues in Iraq

The Defense Base Act (DBA) requires all U.S. government contractors and subcontractors to obtain workers' compensation insurance for employees working in Iraq. In addition, contracting officers must require all contractors to maintain appropriate liability insurance and other types of insurance. As an enticement to work in Iraq, many contractors provide supplemental insurance benefits to employees assigned to that country. For contractors performing work for the federal government in Iraq: What is the cost to the government of coverage purchased under the DBA insurance program, and how is it being implemented?

Iraq's Elections

The President has identified U.S. support of free elections in Iraq as a key step in helping achieve democracy in Iraq. Relying on U.S. and international support, the Independent Electoral Commission of Iraq (IECI) was responsible for undertaking the necessary steps to hold these elections.

- What steps were taken to administer the elections held January 30, 2005?
- What is the nature and extent of U.S. support for the Iraqi elections, including U.S. technical assistance and security?
- What lessons learned have the IECI and international community identified from the January 30, 2005, election?

Iraq Water and Sanitation

Since the fall of the Hussein regime, the U.S. has recognized improved essential services as critical for achieving stability in Iraq. With the proposed reallocation of funds, \$2.2 billion is earmarked for water and sanitation.

- What are the U.S. government's goals for rehabilitating Iraq's Water Resources and Sanitation sector?
- What is the status of the reconstruction effort in the Water Resources and Sanitation sector?
- How are U.S. government agencies ensuring that project and program goals are being met?
- What provisions have U.S. government agencies made to assist the sustainability of completed projects?

Reconstruction Efforts in Iraq

The United States committed more than \$24 billion to reconstruction in Iraq. This engagement will focus on reconstruction of essential and social services sectors: power; oil; and health, education, transportation, and communications. The GAO will also track U.S. funding.

- What have U.S. and international organizations identified as the relief and reconstruction needs for essential and social services sectors in Iraq?
- What are the CPA and current U.S. relief and reconstruction goals for the essential and social services sectors?
- What progress has the U.S. program made toward these goals in the essential and social services sectors?
- Which factors have affected the U.S. relief and reconstruction program, and how have they been addressed?

Post-transition Management of Iraq Reconstruction

Since the transfer of governance authority to Iraq, in June 2004, the Secretary of State has assumed responsibility from the DoD and CPA for setting requirements and priorities and managing the U.S. reconstruction program in Iraq, including the \$18.4 billion in IRRF funds. The GAO is determining:

- How is the U.S. government organized to supervise and direct the reconstruction effort in the post-transition phase?
- How are program management contracts used to manage and support the reconstruction effort in Iraq?
- What factors are challenging U.S. efforts to rebuild Iraq, and how are they being addressed?

Defense Contract Audit Agency

The DCAA plans and performs work on a fiscal year basis. Table 2-5 shows both the Iraq-related audits closed during FY 2004 and the audits closed, opened, and planned in FY 2005 (as of March 31, 2005). The DCAA's services include professional advice to acquisition officials on accounting and financial matters to assist them in the negotiation, award, administration, and settlement of contracts.

In addition to the DCAA's involvement in the negotiation and award of contracts, significant resources are also dedicated to reviewing the allowability, allocability, and reasonableness of incurred and billed costs. Procedures that govern the costs incurred in-country are also being tested through reviews of contractor timekeeping, subcontract management, and cash management/disbursement. Finally, to ensure that adequate internal controls are in place for the contractor's policies and procedures, the DCAA is performing audits associated with critical contractor internal control systems, with an emphasis on estimating, subcontract management, and billing systems. Table 2-5 gives an overview of DCAA audits related to Iraq.

DCAA Audits Related to Iraq for FY 2004 and FY 2005, as of March 31, 2005				
Description of Audit Area	FY 2004 Closed	FY 2005 Closed	FY 2005 Open	FY 2005 Planned
Price Proposals ^a	128	121	5	0
Agreed-Upon Procedures Price Proposal ^b	113	42	5	2
Other Special Requested Audits ^c	123	93	206	18
Incurred Cost ^d	1	2	22	17
Labor Timekeeping ^e	59	49	45	19
Internal Controls ^f	47	32	64	58
Preaward Accounting Survey ^g	30	9	7	0
Purchase Existence and Consumption ^h	15	9	20	9
Other ⁱ	51	38	87	26
Total	567	395	461	149
Notes: ^a Price Proposals – Audits of price proposals submitted by contractors in connection with the award, modification, or repricing of government contracts or subcontracts. ^b Agreed-Upon Procedures Price Proposal – Evaluation of specific areas, including actual labor and overhead rates and/or cost realism analysis, requested by customers in connection with the award of Government contracts or subcontracts. ^c Other Special Requested Audits – Audit assistance provided in response to special requests from the contracting community based on identified risks. Includes semi-annual transaction testing of incurred and billed costs. ^d Incurred Cost – Audits of costs charged to Government contracts to determine whether they are allowable, allocable, and reasonable. ^e Labor Timekeeping – Audits to determine if the contractor consistently complies with established timekeeping system policies and procedures for recording labor costs. ^f Internal Controls – Audits of contractor internal control systems relating to the accounting and billing of costs under Government contracts. ^g Preaward Accounting Survey – Preaward audits to determine whether a contractor's accounting system is acceptable for segregating and accumulating costs under Government contracts. ^h Purchase Existence and Consumption – The physical observation of purchased materials and services and related inquiries regarding their documentation and verification of contract charges. ⁱ Other – Significant types of other audit activities, including financial capability audits and Cost Accounting Standards compliance audits.				

Table 2-5

U.S. Army Audit Agency

The U.S. Army Audit Agency (USAAA) completed one audit during this reporting period and currently has four others ongoing. The USAAA does not currently have any auditors working in Iraq. However, the USAAA plans to send four auditors to Iraq on the Audit of Commanders' Emergency Response Program (CERP) and Quick Response Fund (QRF) and 15 auditors to Iraq and Kuwait on the Audit of Logistics Civil Augmentation Program.

Completed Audits

Accountability over Vested and Seized Assets

(Project: A-2004-FFG-0316.000) issued February 16, 2005

The Assistant Secretary of the Army (Financial Management & Comptroller) requested this audit. Objectives of the audit include:

- Were adequate procedures and controls in place and operating to properly secure and account for vested and seized assets?
- Did adequate audit trails exist to support the on-hand balance of the vested and seized accounts?

The results showed that the Army had properly secured and accounted for seized cash and metal bars, but it sometimes did not maintain adequate controls on receipt of seized non-cash assets that were turned over for safekeeping. Also, audit trails to support the on-hand balance in the vested and seized asset accounts were inadequate. During this audit, the Army took action on USAAA recommendations to improve controls over seized and vested assets.

Current Audits

Program Management in Support of Iraq Reconstruction

(Project: A-2004-AMA-0606.000)

The former Acting Secretary of the Army requested this audit. The overall objective is to determine if the Army and the PCO have put controls and sound business processes in place to mitigate previously identified high-risk areas. Initially, these areas include:

- contracting plans for awarding task orders against existing contracts
- acquisition plans for obligating the remaining IRRF and measuring obligation rates
- PCO efforts to mitigate risks and cost growth on undefinitized contracts
- PCO plans to oversee reconstruction contracts (for example, contractors overseeing contractors)

The USAAA issued the draft report for comment on December 15, 2004. In summary, the USAAA found that the Army and the PCO have put many controls in place to mitigate previously identified high-risk areas. However, additional actions are needed to strengthen controls and address these and other issues:

- The PCO and U.S. Army Corps of Engineers were awarding task orders within the scope and performance period of existing contracts.

- Although the PCO established controls for monitoring and measuring obligations, additional controls were needed to account for all DoD obligations and to measure the progress of the FY 04 IRRF program.
- The PCO established controls to help definitize contracts in a timely manner, but those controls were not fully effective.
- The PCO's controls for using program management support contractors were generally effective, but additional controls were needed to reduce the risk associated with (i) contractors performing inherently governmental functions, (ii) real or perceived conflicts of interests with contractors overseeing contractors, and (iii) award fee plans.

Addressing these additional actions should give the Army better assurance that it is properly controlling and executing the FY 04 IRRF program. The USAAA has received a draft copy of the reply while it is being staffed with HQDA proponents in advance of the official release.

Commanders' Emergency Response Program (CERP) and Quick Response Fund (QRF)

(Project: A-2005-ALE-0191.000)

The Commander, Multi-National Security Transition Command-Iraq, requested this audit. Objectives of the audit include:

- Were funds for the CERP and the QRF received, accounted for, and reported according to applicable laws and regulations?
- Were disbursements consistent with the intent of the charter or implementing guidance?

The USAAA issued the draft report for comment on January 28, 2005, and command concurred with USAAA recommendations on April 4, 2005. The initial conclusion to the objective on whether funds were disbursed according to the intent of the charter and implementing regulations was negative. This happened because command did not retain copies of key documents (receiving reports and payment vouchers). However, command personnel, working with the local finance office, were able to obtain properly signed copies of receiving reports and disbursement vouchers attesting that command received contracted goods and services according to contract specifications, and that contractors signed for payment, and that certifying officials approved the payments. USAAA personnel verified the accuracy of the local records by comparing local copies with those on file with the Defense Finance and Accounting Service at Rome, New York. The USAAA is currently conducting a follow-up on previous recommendations and reviewing FY 05 funds for the CERP and QRF.

Audit of Fund Accountability for Iraq Relief and Reconstruction Fund-2 (IRRF2)
(Project Code A-2005-ALA-0240.000)

The former Acting Secretary of the Army requested this audit. This audit focuses on fund control and accountability over the IRRF2 for reconstruction activities and Operation and Maintenance, Army (OMA) funds for PCO administrative expenses. The overall objective is to ensure that the Army and the PCO have effective controls and sound business processes in place to properly account for that portion of the \$18.4 billion in IRRF2 that DoD activities execute. The objectives ask these questions:

- Does the PCO financial management system and processes have the controls needed to ensure that commitments, obligations, and disbursements are accurately recorded? This includes making sure the PCO used and recorded the funds for the proper sector.
- Does the PCO have adequate controls in place to ensure that operating costs and program costs are properly allocated and recorded?
- Can the PCO financial management system and processes accommodate Army and PCO plans to decentralize contract award and project management?

Audit of Logistics Civil Augmentation Program
(Project Code A-2005-ALS-0340.000)

The Commander, Multi-National Force-Iraq, requested this audit. Preliminary audit planning began on January 3, 2005. The audit will focus on evaluating the adequacy of the LOGCAP program throughout the Iraq area of operations and will require work in Iraq, Kuwait, and in the continental United States. The specific objectives ask these questions:

- Are services acquired under the LOGCAP contract reasonable and cost-effective solutions for satisfying force requirements?
- Are adequate management structures in place to plan, acquire, and manage services obtained under the LOGCAP contract?
- Is the contract administration over LOGCAP work in Iraq adequate?
- Are adequate management/internal controls in place over LOGCAP operations in Iraq, especially those areas highly susceptible to fraud, waste, and abuse?
- Does adequate information exist to enable higher management levels to provide sufficient oversight over LOGCAP operations in Iraq?

Other Agency Investigations

The SIGIR regularly coordinates with other government agencies conducting investigations in Iraq. The SIGIR asked for and received information from the Federal Bureau of Investigation (FBI), United States Agency for International Development (USAID), Defense Criminal Investigative Service (DCIS), and Department of State Office of Inspector General (DoS OIG). Because most of this information is sensitive, only the information below can be released.

Federal Bureau of Investigation

The FBI reported four open and pending cases involving activities associated with Iraq. During the reporting period, the FBI did not close or refer any cases to other law enforcement agencies. The SIGIR is working one of these cases in conjunction with the FBI.

United States Agency for International Development

During this reporting period, the USAID opened one new case involving program integrity. The USAID has five cases of program integrity and two cases of personal integrity open and pending. Two cases were closed during the reporting period. The first, involving program integrity, was closed as unsubstantiated. The second, involving personal integrity, was disproved. One USAID criminal investigator is assigned to Iraq.

Defense Criminal Investigative Service

On October 31, 2004, the DCIS ceased its operations in Baghdad, Iraq. The DCIS, in coordination with the SIGIR, is continuing some investigations, shown in Table 2-6.

DCIS Operations, since December 30, 2004						
Investigative Status	Conflict of Interest	Counterfeit	Weapons Recovery/ Security	False Claims/ Statements	Theft/ Drugs	Bribery/ Corruption
Open	1	0	1	1	1	1
Closed	1	3	5	2	19	8
Totals	2	3	6	3	20	9

Table 2-6

Open Cases

The DCIS currently has a total of five open cases and one open project.

Closed Cases

These cases have been closed since December 30, 2004:

- Before it was redesignated as the SIGIR, the CPA-IG referred information to the DCIS about several contracting officials who allegedly received large bribes for awarding contracts to specific bidders. Several contracting officers

were allegedly involved in the scheme and received money. Subsequent investigation revealed that the initial information may have been erroneous. When DCIS Baghdad ceased operations, the matter was transferred to the SIGIR for resolution. The SIGIR's investigation is open and pending. (Case Number 0042-04)

- The DCIS received information about an Iraqi national's attempt to sell 10,000 music CDs. The Iraqi national alleged that the CDs had fallen off of a military vehicle. DCIS agents visited a local market store and observed numerous empty boxes and music and movie CDs with Army Air Force Exchange Service (AAFES) labels. Based on their observations and further investigation of witnesses, the DCIS Baghdad office, with the Iraq Police Force, executed two warrants. The investigation resulted in the arrest of five Iraqi nationals and the recovery of property valued at \$192,738, identified as stolen from the U.S. military. All five Iraqi nationals were arrested, fined, and released.
- The DCIS received information from two former contractor employees about their company's improper billing for staffing hours. According to former employees, the company did not staff manning levels to the contractual requirements on the contracts, but billed for the full staffing levels. When the DCIS ceased its Baghdad operations, the allegations had not been resolved. The SIGIR agreed to conduct further investigation; the SIGIR's investigation is open and pending. (Case Number 0032-05)
- The DCIS received information about an active duty service member, working at an Iraqi ministry, who had allegedly diverted weapons procured for ministry use. The service member was arrested following a trade of the weapons. A subsequent search resulted in the recovery of weapons, and an investigation revealed that the service member's commander had directed the service member to conduct the exchange. When the DCIS ceased its Baghdad operations, the SIGIR agreed to complete the investigation. The SIGIR completed this investigation. (Case Number 0003-05)

Department of State, Office of Inspector General

During this reporting period, the DoS OIG did not conduct any investigations of activities funded by the IRRF. The DoS OIG has no criminal investigators assigned to Iraq. There were no open, closed, or referred cases.

The SIGIR's Future Plans

This section presents the SIGIR's plans for the future, including operational plans, the SIGIR Audit Plan (2005-2006), information and operational developments, and building the capacity of the SIGIR.

Operational Plans

Consistent with its statutory reauthorization in late 2004, the SIGIR's operational plans have focused on:

- the continuing nature of the Iraq reconstruction effort
- the limited tenure of the SIGIR
- the resulting need for immediate and non-traditional approaches designed to address Iraq reconstruction programs and operations

To address these inherent challenges and opportunities, the SIGIR has adopted an approach that mixes the traditional operational and management practices of an inspector general with non-traditional approaches. The SIGIR will adjust and refine operational plans to respond to the circumstances, risks, and requirements of Iraq reconstruction oversight reporting responsibilities.

The core elements of future plans are framed by:

- the SIGIR Audit Plan (2005-2006)
- an integrated reconstruction information and site-inspection program
- the deployment of a professional capability to sustain the SIGIR's operational plans

The SIGIR Audit Plan

This SIGIR audit plan outlines the top priorities and the particular areas of interest of the SIGIR and describes the focus for the audits and evaluations to be performed during 2005-2006. The plan is to be used as a guide and is subject to revision owing to changing circumstances that may occur in Iraq and new or revised legislation.

This plan is based on the requirements of P.L. 108-106, as amended. It incorporates significant research into key areas of interest for management, the SIGIR, and the Congress and provides balanced coverage of the SIGIR mission area with the resources that are currently available—and projected to be available. The plan devotes special attention to the unique nature of the Iraq reconstruction effort and the SIGIR's role, the temporary life-span of the SIGIR, and the resulting need for immediate and non-traditional approaches uniquely designed to address Iraq reconstruction programs and operations. Further, the SIGIR incorporated its on-the-ground knowledge of IRRF

programs and operations, as well as Hotline allegations and investigative referrals, to round out the basis for the key areas of interest described in the audit plan.

The SIGIR will primarily conduct performance audits that assess the economy, efficiency, effectiveness, and results of Iraq reconstruction programs and operations. Audit projects may include:

- information systems used for the management of IRRF programs
- policies and procedures used for the IRRF
- project management
- recruiting and deployment of project management and contracting
- personnel supporting Iraq reconstruction
- Iraq reconstruction records management

The SIGIR will launch a series of audits to assess the management of selected phases of construction and non-construction projects. These audits will have a wide variety of audit objectives.

These audits will systematically examine evidence to provide an assessment of the overall performance and management of construction and non-construction projects. In addition to the general legislative and regulatory guidance on contract administration and financial management, these audits will use the contract and task order provisions (for example, the statement of work and/or the definitization of work tasked) as more specific criteria to identify the scope and assess the completion of projects. The SIGIR will perform this type of audit at construction and non-construction sites that offer adequate security.

As trends are observed and overarching themes emerge, the SIGIR may consider a summary audit report to combine individual audit report results and recommendations and to address overall program management issues. The audit series will encompass:

- reconstruction activities audits (secure sites)
- reconstruction activities audits (non-secure sites)
- requirements audits (construction and non-construction)
- stabilization and reconstruction deployment package audits
- logistics management audits

The SIGIR will also evaluate the objectives of the Evaluation of Specified Issues Concerning Iraq Relief and Reconstruction Fund Project Management. The overall objective of this evaluation is to research the impact of specific issues concerning IRRF project management. This evaluation will be performed with a narrow range of specific evaluation objectives that will generally be guided by the overall audit plan objectives for:

- conducting oversight and accounting of the obligation and expenditure of IRRF funds
- monitoring and reviewing reconstruction activities funded by the IRRF
- monitoring and reviewing contracts funded by the IRRF

This evaluation will consider general legislative and regulatory guidance, operations within high-risk areas, and the unique environment of post-wartime stabilization and reconstruction scenarios. Issues may include the impact of security, insurance, materials costs, and transportation support for Iraq reconstruction.

Because of the multi-agency nature of Iraq reconstruction efforts and to minimize duplicative work, the SIGIR continues to consult and coordinate its work with counterpart organizations, including:

- Office of the Inspector General, Department of State
- Office of the Inspector General, Department of Defense
- Office of the Inspector General, U.S. Agency for International Development
- Office of the Inspector General, Department of Treasury
- Office of the Inspector General, Department of Commerce
- Office of the Inspector General, Department of Health and Human Services
- Government Accountability Office
- Defense Contract Audit Agency
- U.S. Army Audit Agency
- Naval Audit Service
- Air Force Audit Agency

The SIGIR Audit Plan is provided in Appendix H.

Information and Operations Program

The SIGIR is validating an integrated information and operations pilot program to enhance oversight of reconstruction activities in Iraq. Leveraging the resources of in-theater capabilities, the pilot program will provide enhanced visibility of ongoing projects and programs. These capabilities include:

- Audit resources focus on the operational effectiveness of the agencies overseeing the reconstruction efforts.
- Investigation resources address significant criminal activities.
- Inspection resources examine ongoing construction efforts at project sites.

The SIGIR is currently developing an inspection program of IRRF-funded construction and relief project sites to determine whether activities at the sites meet contractual specifications. A pilot project of certain aspects of the program has been developed and is currently being implemented. As additional surveillance capability is developed, the program will be expanded.

The multi-faceted program has a four-phase process to ensure the greatest positive impact on program operations:

1. In the first phase, the sites to be inspected are selected after careful consideration of the dollar value of the projects; the significance of the projects; the likelihood that fraud or waste would be identified; and allegations involving specific project sites, projects, or contractors.
2. In the second phase, the inspection assets are selected, including both technological and on-ground assets. Several factors are considered, with the physical security of inspection personnel and on-site Iraqi contractors and subcontractors a major factor.
3. The third phase is the actual inspection of the site and/or activity and a comparison to contractual requirements.
4. The follow-up phase is last, in which projects with significant discrepancies or evidence of fraud or waste will be referred to SIGIR audit or investigation personnel for further inquiry or follow-up or to the various U.S. or non-U.S. agencies managing or overseeing the projects, so that they can quickly address the problems identified.

The program could have several benefits:

- a cost-effective use of the SIGIR's limited audit and investigation resources
- maximum coverage of audit and investigation targets
- ability to triage high-risk targets
- lowest personal risk to Iraqi contractors and subcontractors
- lowest personal risk to auditors and investigators
- a shareable tool that can be used by management to improve internal controls
- creative leveraging of existing technological capability in Iraq

An essential element of the inspection program is also the development of a comprehensive database of information on the thousands of construction and non-construction projects funded by the IRRF. This database, the SIGIR Iraq Reconstruction Information System (SIRIS), will include contracts, task orders, and projects and will serve as a single point of reference for programs and projects managed (separately) by the DoD, DoS, and the USAID. The SIGIR plans to make the SIRIS available through a Web-based extranet to all management and oversight agencies involved in Iraq reconstruction.

Building the Capacity of the SIGIR

The last half of 2004 was marked by the impending expiration of the CPA-IG. Many of the auditors and investigators sought or secured more certain employment opportunities as the future of the organization was considered by the Congress. After November 1, 2004, 21 auditors and investigators left Baghdad or rotated out of the CPA-IG/SIGIR. As of April 18, 2005, professional staff of the SIGIR form 63.8% of the organization's total full-time employees. Details of these staffing levels are shown in Figure 2-3.

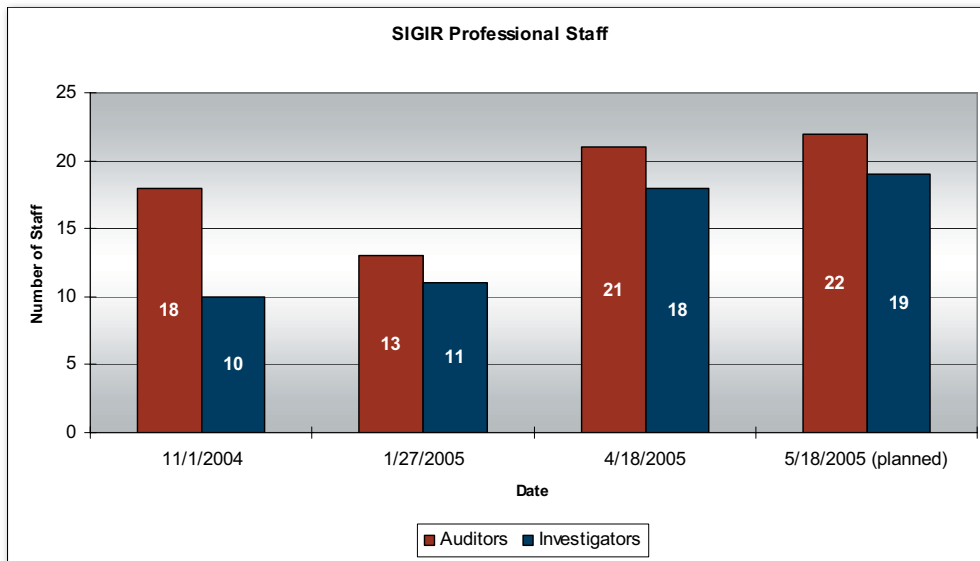


Figure 2-3

Beginning shortly after its redesignation with modified authorities, the SIGIR launched an aggressive program of recruitment and hiring. As a result, the percentage of auditors and investigators in Baghdad tripled between January and April of 2005 (see Table 2-4). The SIGIR's hiring plans for May 2005 provide for 72.4% of its auditors and investigative professionals to be forward-located in Iraq. Figure 2-4 shows the deployment plan by quarter.

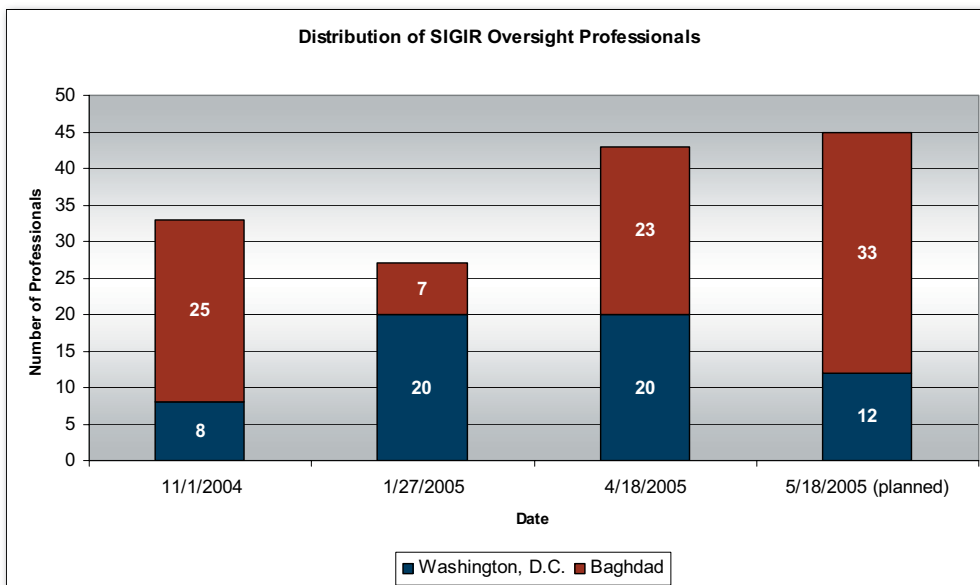


Figure 2-4

Section 3

Public Law 108-106, as amended, requires the Special Inspector General for Iraq Reconstruction (SIGIR) to provide a “project-by-project, program-by-program” account of activities funded by the Iraq Relief and Reconstruction Fund (IRRF). Because of the decentralized nature of reconstruction management, assembling a clear picture of Iraq reconstruction is difficult. This section describes the SIGIR’s efforts to consolidate accurate information about reconstruction projects and their impact in Iraq.

Section 3 covers these topics:

- Iraq Reconstruction Reporting
- Iraq Reconstruction Management
- Project and Contract Analysis
- Assessing Iraq Reconstruction
- Further Reading

Iraq Reconstruction Reporting

Although Iraq's governance transitioned from the Coalition Provisional Authority (CPA) in June 2004, the management of reconstruction remains with the United States, under the U.S. Mission Iraq. The United States coordinates closely with the Iraqi ministries to manage reconstruction activities funded by U.S. appropriations, including support for Iraqi capacity-building.

The largest single financial U.S. contribution to the reconstruction effort has been the \$18.4 billion IRRF appropriation, enacted in November 2003. The Department of State (DoS) reports that, as of April 6, 2005, \$12.2 billion (66%) of that money had been obligated, and \$4.2 billion (23%) has been expended.

At least 12 offices, spread across 6 U.S. government agencies, have direct responsibility for some portion of the IRRF. This decentralization of responsibility and management complicates efforts to evaluate how the \$18.4 billion in U.S. appropriated funds is being spent. The SIGIR has identified concerns about:

- whether U.S. government organizations can generate a reliable, consolidated view of all activities funded by the IRRF
- whether U.S. government organizations can implement reliable estimates of the costs to complete current reconstruction projects
- whether systems that are used to track reconstruction projects can produce reports that tie these projects to the contracts that fund them
- whether contract data from IRRF-funded contracts is accessible, reliable, and complete
- whether contract officials are able to verify that work is completed satisfactorily before issuing payment

The SIGIR is building a consolidated view of the IRRF contract, project, and financial data reported by all Iraq reconstruction agencies. The SIGIR Iraq Reconstruction Information System (SIRIS) includes the tracking of:

- the contracts issued by the U.S. government
- the individual projects
- the financial transactions, such as obligations and disbursements that are made against each contract

This view will give the SIGIR and other oversight organizations a new tool to help assess the state of Iraq reconstruction.

Estimates of the Cost to Complete Projects

Reliable estimates of the costs to complete ongoing projects are crucial to determining whether these projects can actually be completed with the \$18.4 billion in available funds. One of the SIGIR's unanswered questions is whether reconstruction organizations can produce estimates that accurately reflect the costs incurred in response to increased security needs and other difficulties of working in Iraq. The DoS reports that it is finalizing an assessment of the financial status of IRRF projects, which will include cost-to-complete estimates. In addition, the Project and Contracting Office (PCO) reports that it has developed a "multi-layered contingency management plan" to account for changing security and overhead costs. If these cost-estimating efforts are successful, they would represent a significant improvement in administering the IRRF.

Iraq Reconstruction Management

The SIGIR is attempting to assemble a comprehensive picture of Iraq reconstruction. Although the U.S. Mission Iraq is responsible for leading reconstruction efforts and setting priorities, many other U.S. government organizations are involved in implementing projects that use IRRF funds. The roles of these organizations have changed significantly during the past two years, and the brief tenure of most U.S. personnel in Iraq impedes the development of institutional knowledge and consistent management within Iraq reconstruction agencies. Many Department of Defense (DoD) personnel stay for only a few months before moving on; the DoS has a one-year rotation. To facilitate future oversight efforts of management practices, the SIGIR has begun to “reverse-engineer” a blueprint of the overall Iraq reconstruction organization and its many systems.

Agency Roles

The DoS, through the U.S. Mission Iraq, has overall responsibility for leading the U.S. reconstruction effort and setting priorities. The Iraq Reconstruction Management Office (IRMO) is the DoS organization that coordinates the other U.S. agencies working to rebuild Iraq.

In addition to its leadership responsibilities, the DoS manages 6.4% of IRRF funds for use in the Security, Justice, and Education sectors; most of these funds are managed by the DoS Bureau for International Narcotics and Law Enforcement Affairs (INL). Other DoS organizations also have responsibility for parts of IRRF, including the Bureau of Political-Military Affairs (PM); the Bureau of Democracy, Human Rights, and Labor (DRL); and the Bureau of Population, Refugees, and Migration (PRM). The DoS Bureaus involved in Iraq reconstruction use DoS systems called Central Resource Management System (CRMS) and Central Financial Management System (CFMS) for financial management. The Bureaus use a variety of different systems for contracting and project management.

The DoD is responsible for managing the largest portion of IRRF funds—approximately 70%. Within the DoD, two organizations in the U.S. Army have responsibility for managing IRRF funds:

- The PCO was created specifically to support Iraq reconstruction. Overseen by the U.S. Army, the PCO implements projects across all sectors of the IRRF through private contractors and the U.S. Army Corps of Engineers.
- The Multi-National Security Transition Command-Iraq (MNSTC-I) also implements projects for the DoD, primarily in the Security and Law Enforcement sector.

These organizations share the U.S. Army Corps of Engineers Financial Management System (CEFMS) for financial reporting and disbursing. The contracting process is largely an ad-hoc, manual process. Project management involves a number of project and logistics software packages, but it is unclear how effectively these have been implemented.

The U.S. Agency for International Development (USAID) also implements projects in most sectors of the IRRF. Most funds are managed by the USAID Mission-Iraq, which is part of the USAID Asia and Near East (ANE) regional organization. The USAID Office of Transition Initiatives (OTI) and the Office of Foreign Disaster Assistance (OFDA) also have responsibility for some of the USAID funds in the Justice, Public Safety, and Civil Society Sector.

The USAID offices use the ProDoc software system for procurement, and they report preparations for implementing a new database system this summer. The ANE uses the USAID Mission Accounting and Control System (MACS) for financial management, and the OTI and OFDA use the USAID's new Phoenix financial management system. The ANE uses a contractor for project management services.

Most of the \$391 million reported in the April 5, 2005 DoS 2207 Report as allocated to the Department of the Treasury (Treasury) represents IRRF funds reprogrammed from other sectors and used to forgive Iraq's debts to the U.S. The Treasury also manages contracts supporting banking system modernization and private sector development. The Overseas Private Investment Corporation (OPIC) leveraged its IRRF allocation to support private lending for development activities. The United States Institute for Peace (USIP) devotes its IRRF funds to the Justice, Public Safety, and Civil Society Sector.

Agency Systems

Figure 3-1 shows the organizations that directly receive IRRF funds and their shares of the IRRF. It captures information that the SIGIR is gathering to "reverse-engineer" a clear picture of the current state of IRRF execution. It identifies the offices within each major agency that are executing IRRF funds and the obligation amounts that they have reported to the SIGIR.

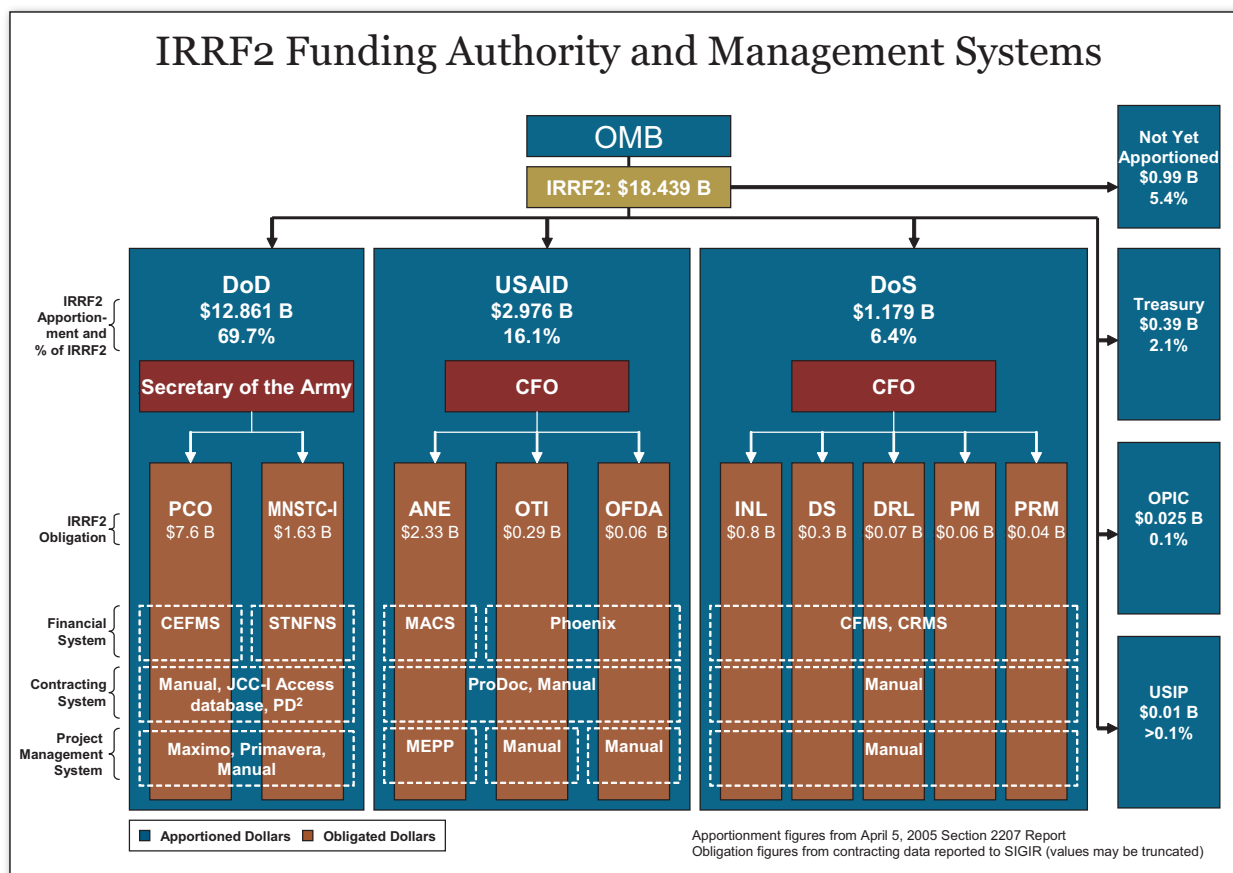


Figure 3-1

This diagram also shows the many information systems in which data about reconstruction projects, contracts, and finances may reside:

- *Contracting Systems* store the terms of the contracts and may also track the contract bidding process.
- *Project Management Systems* typically track the status of a project and may also track raw materials or supplies.
- *Financial Management Systems* track the commitment, obligation, and disbursement of funds.

Many systems are named in more than one functional area on the chart. The SIGIR is working to clarify any overlap in data or coordination between these systems. Because the Treasury, OPIC, and USIP are allocated only a small percentage of the IRRF, their information is not detailed in this graphic.

Reconstruction Management Processes

In addition to charting the organizations and systems involved in Iraq reconstruction, the SIGIR has been documenting the business processes used to manage IRRF funds. Understanding these processes is essential to evaluating the quality of the status reports produced by reconstruction agencies. Through interviews at each organization, the SIGIR is mapping the steps that each organization follows when managing contracts, projects, and finances in Iraq.

Each of the information systems identified in Figure 3-1 is at the center of a series of business processes, and these processes may be different at each office within an agency that uses that information system. Preliminary results from the SIGIR interviews suggest that the processes used within an organization may also vary depending on who is implementing them. In the contracting realm, the high turnover among contracting officers has led to wide variation in contracting procedures and standards. In addition, several organizations have reported difficulty in finding enough contracting and project management experts to handle the workload.

The SIGIR's initial research has also identified the use of manual processes, involving spreadsheets or paper, to manage projects and contracts. Such practices are inherently risky, because they lack the data integrity safeguards of a modern information system. While there is a precedent for management without the benefit of such information systems, it is important to determine whether adequate management controls are in place to compensate for the lack of technological safeguards.

The SIGIR's work in mapping processes has only begun, and additional interviews will be required to complete the picture. At the same time, these agencies report that they are implementing new systems and processes to improve their management controls. As the process map evolves, the SIGIR will be able to compare the existing and proposed practices to government standards to help reconstruction management identify areas for improvement. The SIGIR is also conducting a formal audit of reconstruction agency information systems to ensure that they are reliable and adequately coordinated.

Project and Contract Analysis

On February 15, 2004, the SIGIR requested data from Iraq reconstruction agencies to support a detailed examination of the expenditure of funds used for IRRF-funded projects. This information on awarded contracts, obligations, disbursement, and an estimate of the cost to complete each project was used to initiate the SIGIR Iraq Reconstruction Information System (SIRIS). As a result of meetings held in Baghdad and Washington, D.C., with many of the reporting agencies, the SIGIR began receiving data on March 15, 2005. This new information will form a baseline for a comprehensive database of the \$18.4 billion IRRF. The SIGIR will use the SIRIS to design and perform the highest value audits and investigations, and other oversight organizations will be able to access the SIRIS to facilitate oversight of the IRRF.

In this first round of queries, the SIGIR analyzed more than 20 data sources submitted by these entities:

- U.S. Department of State
 - Iraq Reconstruction Management Office (IRMO)
 - The Bureau for International Narcotics and Law Enforcement Affairs (INL)
- U.S. Department of Defense
 - Project and Contracting Office (PCO) (Baghdad and Rear)
 - U.S. Army Corps of Engineers (USACE)
 - Multi-National Security Transition Command-Iraq (MNSTC-I)
- U.S. Agency for International Development (USAID)
- U.S. Department of the Treasury
- U.S. Institute for Peace (USIP)
- Overseas Private Investment Corporation (OPIC)

These are the two most comprehensive data sources that have been provided to the SIGIR:

- The PCO Rear provided a spreadsheet with more than 5,800 lines of contracting actions that contain an as-reported total of \$13.2 billion—funded by the IRRF, other appropriated funds, and the Development Fund for Iraq (DFI).
- A spreadsheet with more than 1,600 lines of contracting actions from the Army Corps of Engineers Financial Management System (CEFMS) includes \$4.5 billion in construction obligations.

Data Quality

The quality of data that the SIGIR received varied greatly. The MNSTC-I, USAID, and USIP provided the SIGIR with data on both contracts and projects. Other organizations provided partial data sets. In addition to limited response to specific requests, the range of data quality issues included:

- overlapping data sets between reporting organizations
- incomplete information on IRRF-funded projects and contracts
- inconsistent standards and naming conventions in data submitted
- conflicts in similar data between various reporting agencies

Most of the data sets contained information on contracts, contract amounts, and disbursement amounts. For a list of contracts, see Appendix G.

Data Analysis

Of the data the SIGIR obtained, some overlapped, some was contradictory, and there were identified gaps. The data contained approximately 6,700 unique contract actions. Of these, \$17 billion of contracting actions were reported as funded by the IRRF and other appropriated funds.

In addition to collecting contracts and spreadsheets provided by the various agencies, the SIGIR received output from the DoD and USAID financial systems. To verify reported contracting actions, the SIGIR obtained copies of approximately 800 actual contracts from the PCO, USAID, and the U.S. Air Force Center for Environmental Excellence contracting officers. These contracts were then used to cross-check data.

Obligations and Expenditures

The SIGIR tracked historical financial data from DoS *Iraq Weekly Status* reports to discern any trends in obligations and disbursements made against IRRF funds. Since IRRF contracting actions began in April 2004, contractual obligations have increased at a faster rate than disbursements. Given the underlying contracting process, this is not unexpected: funds are obligated initially, and disbursements are made when goods and services are provided.

Figure 3-2 demonstrates that surges in obligation growth over disbursements occurred from July-September 2004 and December 2004-February 2005. In recent months, the rates of growth of disbursements and obligations have been nearly parallel, although the difference between obligations and disbursements is about \$8 billion.

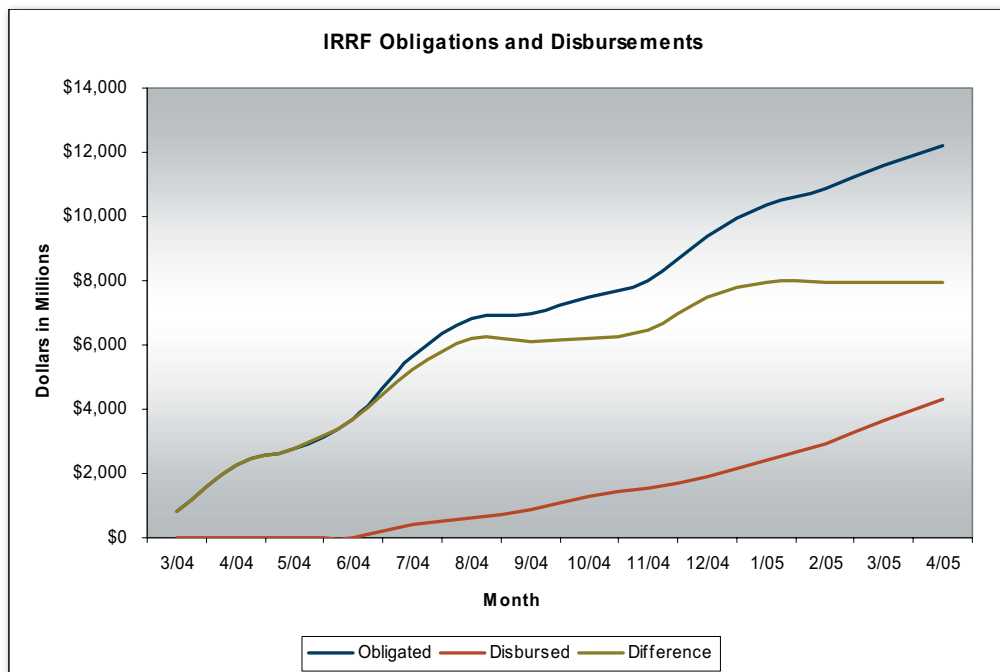


Figure 3-2

Projects Overview

Requested information on contract actions appears to be nearly complete; however, the SIGIR has identified large gaps in the amount of “project” level information associated with contracts. As a result, this report does not provide an overall review of Iraq reconstruction at the project level.

The SIGIR plans to continue work with implementing agencies to obtain and develop more robust data for future reports.

Project Analysis

The IRRF-funded project data reported to the SIGIR is insufficient for detailed analysis of all projects, because some reconstruction organizations provided incomplete responses. The project data from the MNSTC-I and USAID is the most complete information that the SIGIR has received to date. The SIGIR reviewed this data to provide an example of the type of analysis that can be performed when all of the organizations have submitted complete project data.

Cost to Complete Projects Exceeds Initial Estimates

In the absence of detailed costs to complete the projects funded by the IRRF, the SIGIR has examined a subset of reconstruction projects reported by the MNSTC-I and USAID. Generally, the data suggests that the cost to complete projects exceeds initial estimates. In Phase-1 projects (largely IRRF1), the USAID’s current estimated cost to complete the 76 projects under task order is 20.1% above the initial estimated cost to complete.

The estimated cost to complete late-stage IRRF-funded projects for both the USAID and MNSTC-I appears even greater than USAID Phase-1 projects. As shown in Figure 3-3, for the five (of 19 total) USAID task orders that are more than 50% complete, the estimated cost to complete is 85.5% above the original estimate. Similarly, 10 of 86 total MNSTC-I projects funded by the IRRF are at least 90% complete and have a current contract value that is 50.2% greater than the original (cumulative) estimate. For both the USAID and MNSTC-I, the estimated cost to complete projects in their early stages shows little deviation from initial cost estimates.

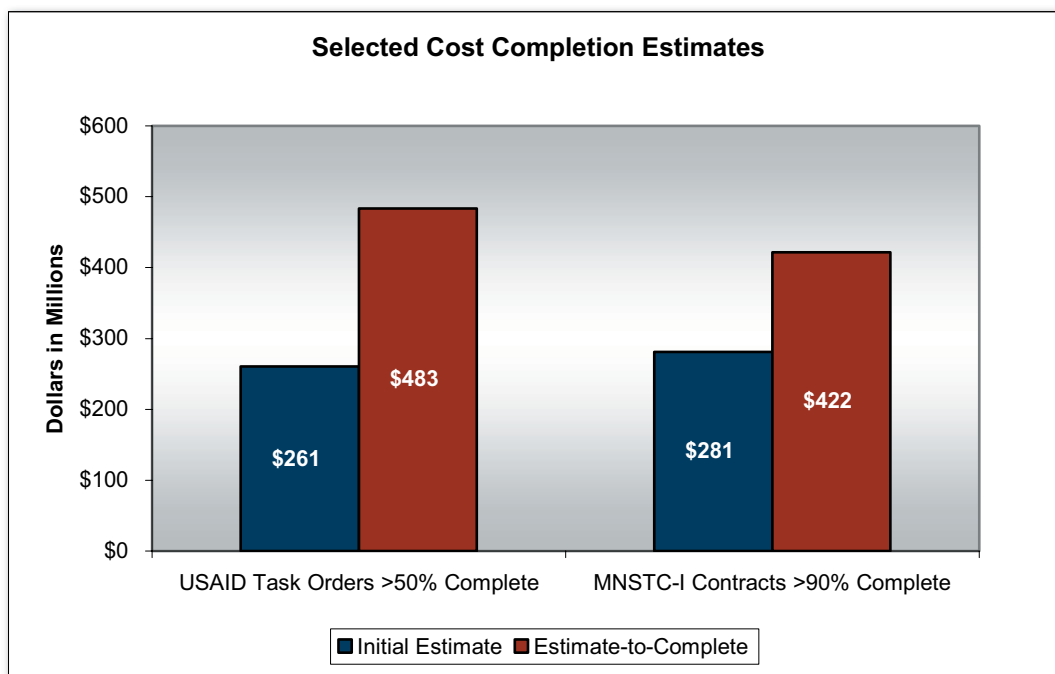


Figure 3-3

Multi-National Security Transition Command-Iraq: A Case Study

The MNSTC-I reported that it currently has 96 ongoing projects related to Iraq reconstruction with \$1.094 billion obligated to the projects:

- 86 of these projects (89.6%) are funded by the IRRF.
- 6 are funded by the DFI.
- 4 are without funding identification.

Of the total obligated amount for the 96 projects, \$582 million (77.9%) has been disbursed.

Analysis of the project data offers visibility into the number and type of projects being implemented in each IRRF sector. Of the 96 projects reported by the MNSTC-I, 83% are in the Security sector. This is not surprising given the focus of MNSTC-I on security and justice.

Table 3-1 shows the sector breakdown for MNSTC-I projects.

MNSTC-I IRRF-funded Projects by Sector					
Sector	Number of Projects	Amount Obligated	Percent of Total Obligated	Amount Disbursed	Percent of Total Disbursed
Security and Justice	80	\$1,001,907,494	91.5%	\$533,634,784	91.6%
Buildings, Health, and Education	6	65,593,748	6.0%	44,839,552	7.7%
Ministry of Education	2	21,370,173	2.0%	3,038,554	0.5%
Housing and Construction	3	-	0.0%	-	0.0%
Other	5	5,563,659	0.5%	982,265	0.2%
Total	96	\$ 1,094,435,074	100.0%	\$582,495,155	100.0%

Table 3-1

Analyzing the data geographically gives an idea of which regions in Iraq are receiving the most U.S. resources. For example, Table 3-2 shows the ten cities with the largest amounts of the IRRF obligated for MNSTC-I projects. Together, these ten cities represent 76% of the MNSTC-I's IRRF obligations.

MNSTC-I IRRF-funded Projects, Obligations and Disbursements by City			
City	Amount Obligated	Amount Disbursed	Number of Projects
Tadji	\$153,812,920	\$63,000,158	4
An Numaniyah	129,294,132	109,236,015	5
Al Kasik	113,616,955	102,387,460	4
Kirkuk	110,167,449	63,492,561	2
Tallil	76,650,467	71,096,923	2
Baghdad	72,909,888	34,658,075	11
Ar Rustamiyah	63,076,900	25,311,237	1
Multiple Cases	58,687,840	44,106,361	5
Kirkush	33,319,815	24,148,168	4
Umm Qasr	\$17,356,681	\$16,493,840	3

Table 3-2

The MNSTC-I project data in Table 3-3 also reveals that more than 87% of its projects appear to be ahead of schedule, with obligations running equal to or less than the percent of completion.

Project Analysis - Percent Obligated vs. Percent Complete				
Project Category	Number of Projects	Percent of Total	Amount Obligated	Percent of Obligated
Percent Obligated > Percent Complete	12	12.5%	\$166,059,117	15.2%
Percent Obligated <= Percent Complete	84	87.5%	928,375,957	84.8%
Total	96	100.0%	\$1,094,435,074	100.0%

Table 3-3

Assessing Iraq Reconstruction

Since the earliest days of Iraq reconstruction, various U.S. and Iraqi entities have reported on major economic outcomes in Iraq that may be influenced by U.S. reconstruction activities, including oil production, electricity production, and Iraqi employment. These numerical metrics tell only part of the story of Iraq reconstruction; nevertheless, they are a valuable tool for assessing the progress of the reconstruction effort. Publicly available reports on the progress of reconstruction, however, rarely present these metrics in their full context. They may lack sufficient detail to be illuminating, or they may present such a narrow time-frame that it is difficult to analyze trends. To help complete the picture of U.S. Iraq reconstruction efforts, the SIGIR follows a few key metrics over time and presents them in their historical context in the Quarterly Reports. No attempt has been made to verify the validity of the data at this time.

Few metrics are reported by reconstruction agencies, and these are usually quantitative. Quantitative metrics are often appropriate for analyzing costs, but periodic reports often cover information only during a short period of time. If possible, quantitative data should be presented in a time series stretching back as far as possible to provide historical context and allow readers to see trends. In this section, the SIGIR has gathered and collated data on several of these metrics to show trends.

Although this quantitative information may be helpful in understanding commodities like oil or electricity, it does not include adequate information about more complex sectors, such as health care or justice. For example, in its March 27, 2005 *Essential Services Report*, the DoS includes these overview statistics since December 8, 2004:

- 33 water treatment projects have been completed.
- 2 water resources projects have been completed.
- 26 primary health care facilities have completed construction.
- 339 school rehabilitation projects have been completed.
- 114 judges have been trained.

These raw counts are of minimal value without information on the quality, working state, and durability of the improvements and without comparison data to answer these questions:

- How many projects were originally planned?
- Can the incomplete projects be completed with the funds that are currently available?
- What strategic goal is each project designed to address?
- How have completed projects advanced U.S. strategic goals?

The SIGIR has learned that reconstruction agencies report some of this data, such as planned projects and estimates of the impact of completed projects. These reports are distributed only to managers of reconstruction organizations, and they are not as easily accessible to the public as summary reports like the *Iraq Weekly Status* reports.

Employment Data

In its *Iraq Weekly Status* reports, the DoS reports figures on the number of Iraqis employed on projects administered by the U.S. government. These reports typically provide data for the current week and compare this data to the previous week. Figure 3-4 summarizes these weekly Iraqi employment reports, beginning with August 2004.

The number of Iraqis employed on U.S. government projects fell during the month before the Iraqi elections. It has reportedly risen steadily for most of the two months since then. Reported employment numbers exceeded 170,000 people for the first time in mid-March 2005, according to the DoS. These numbers reflect only employment on U.S. government projects; they do not capture jobs associated with U.S. projects transferred to the Iraqi ministries.

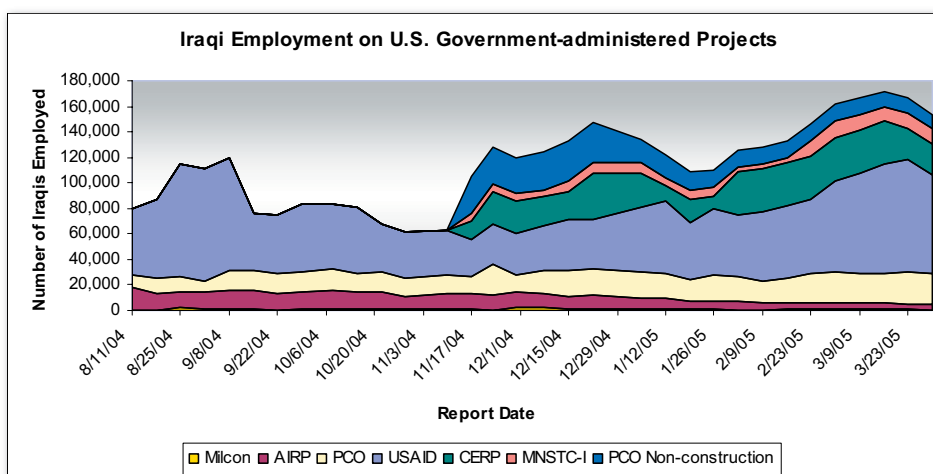


Figure 3-4

Oil

Although Iraqi crude oil production continues to fall short of the target of 2.5 million barrels per day (MBPD) target set by the Iraqi Ministry of Oil, production appears to have stabilized during this reporting period. The DoS *Iraq Weekly Status* reports have shown level crude oil production—around 2.1 MBPD. This is a significant change from the volatility in this sector during the second half of 2004. Figure 3-5 shows Iraq's weekly average oil output since the beginning of 2004.

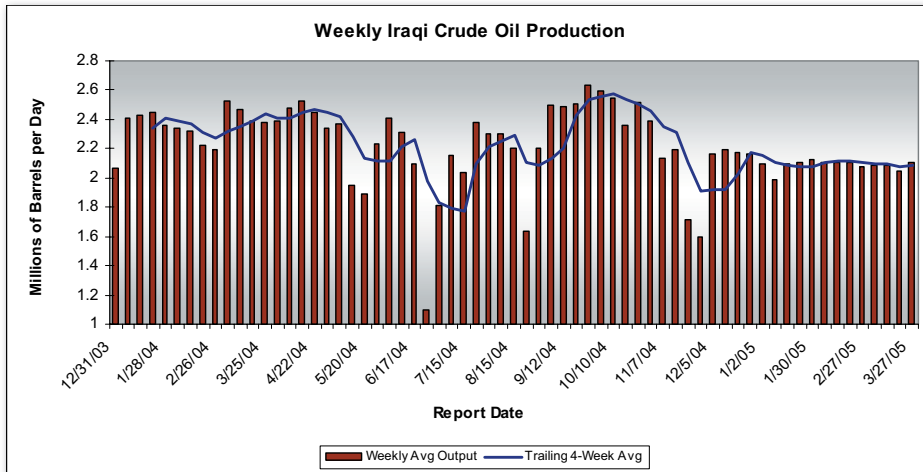


Figure 3-5

Crude Oil Exports

Exporting crude oil is one of Iraq's major sources of income. Crude oil export numbers have also stabilized somewhat during this reporting period, compared to the last half of 2004, according to the DoS *Iraq Weekly Status* reports. Figure 3-6 shows Iraq's crude oil export volume and revenues since June 2003.

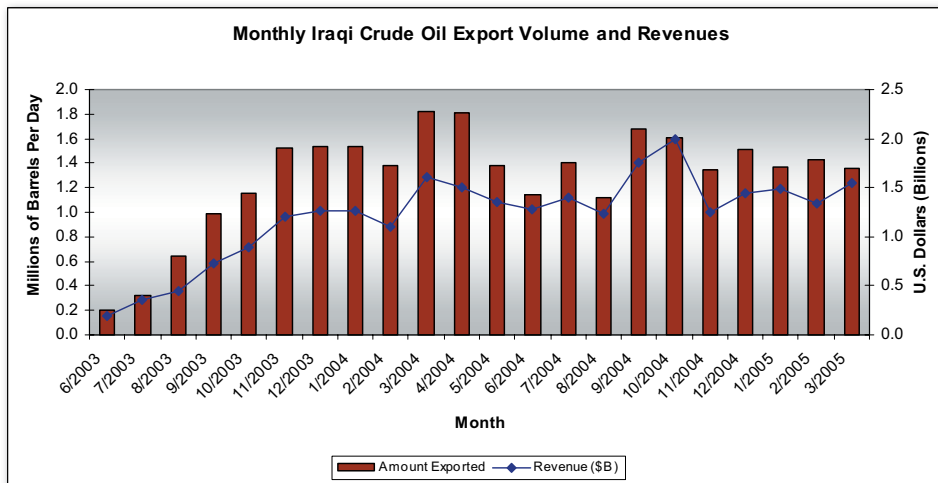


Figure 3-6

Refined Petroleum Supplies

Before it can be burned efficiently, most oil must be refined. Since soon after the war, reconstruction organizations have been reporting on Iraq's nationwide stocks of refined petroleum products. In the months since the January 30, 2005 election, Iraq's reported stocks of three of the four major refined products tracked by the United States have been trending upward toward post-war highs. Figure 3-7 shows weekly numbers for Iraq's nationwide supplies of refined petroleum as reported in the *Iraq Weekly Status* reports.

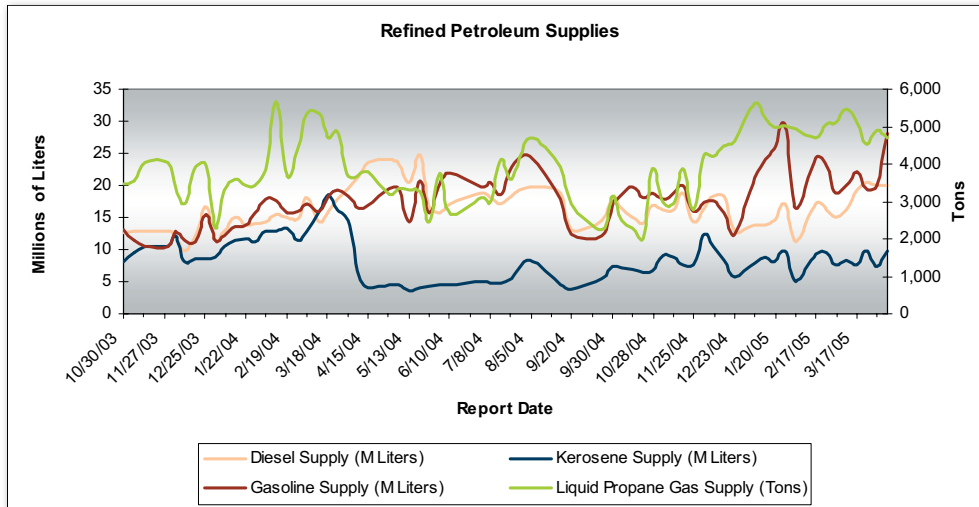


Figure 3-7

Electricity

The DoS *Iraq Weekly Status* reports show that demand for electricity is growing in Iraq even as supply remains constrained by a lack of generating capacity, fuel shortages at generating plants, a weak distribution system, and an infrastructure that is much more fragile and dilapidated than originally estimated. The electricity load served by the grid remains below estimated pre-war levels of 95,000 megawatts per hour (MWh). Peak daily generating capacity averaged approximately 4,200 megawatts (MW) during this reporting period. Figure 3-8 shows electricity output in MW, electricity load served in MWh, and a forecast for the number of MW demanded.

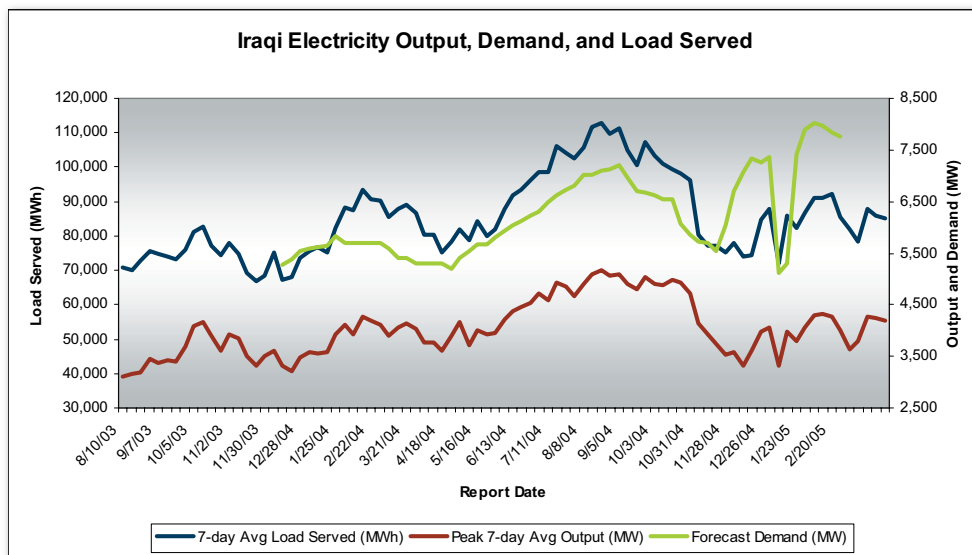


Figure 3-8

Telecommunications

The growth of telecommunications usage reported by reconstruction agencies since the end of the war has been steady. Wireless telephone service was initiated in February 2004, and it now serves more customers than the landline telephone system. Landline service has spread more slowly, and the number of customers it serves exceeded the pre-war level of approximately 833,000 customers in November 2004. Figure 3-9 shows weekly snapshots of telecommunications subscriber numbers reported in the *Iraq Weekly Status* reports since February 2004.

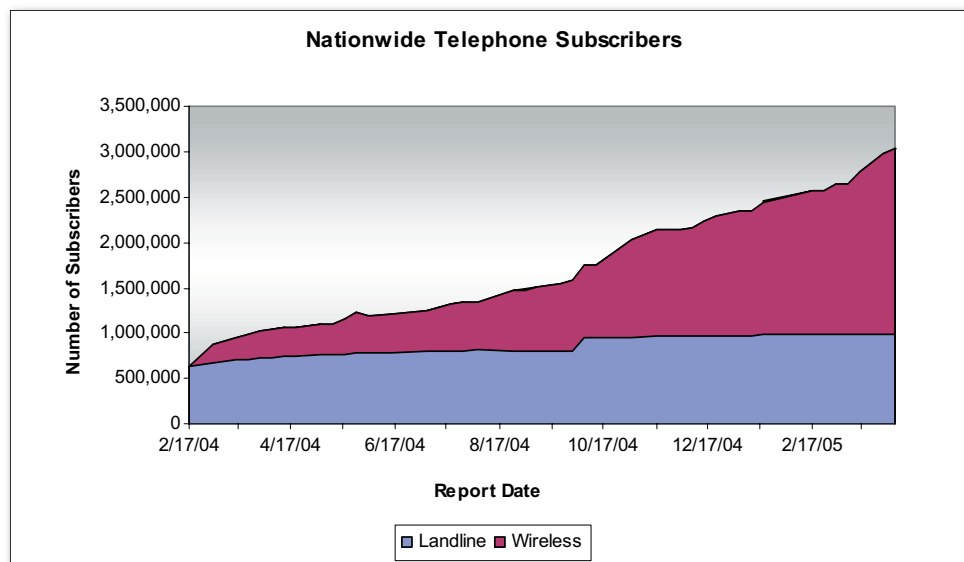


Figure 3-9

Democracy-building Activities

Democracy-building activities (Justice, Public Safety, Infrastructure, and Civil Society) represent 4.5% of total IRRF allocations. Either the USAID or the DoS oversees all of the programs and projects related to this sub-sector. The USAID provided contract, obligation, and disbursement information on the continuing activities related to democracy-building and governance. This information was not available from the DoS.

Of the \$832.0 million in IRRF funds allocated to democracy-building activities, the USAID had obligated \$601.4 million (72.3%) of the total allocation, as of March 31, 2005. Of the amount obligated, 45.6% had been disbursed. The USAID's portion of available funds for democracy-building activities is divided into the ten categories displayed in Table 3-4.

USAID Democracy-building Activities			
Award Categories	Obligated	Disbursed	Percent Disbursed
Transition Initiatives	\$274,444,181	\$132,395,133	48.2%
Iraq Local Institutions Support and Development Program	128,299,757	93,335,325	72.7%
Domestic Oversight and Voter Education Activities for Iraqi Electoral Processes	47,175,000	7,705,644	16.3%
Community Action Program	45,000,000	13,476,670	29.9%
Civil Society and Media Support Initiative in Iraq	42,300,000	3,763,184	8.9%
Electoral Technical Assistance to the Independent Electoral Commission of Iraq (IECI)	40,000,000	15,644,261	39.1%
Iraqi Government and Constitutional Development	20,700,000	5,101,708	24.6%
Agriculture Reconstruction and Development Program for Iraq (ARDI)	2,000,000	2,000,000	100.0%
Media-based Voter Education Program	1,000,000	796,809	79.7%
Support for the Iraqi Governing Council	675,000	326,329	48.3%
Total	\$ 601,593,938	\$ 274,545,063	45.6%

Table 3-4

Transition Initiatives

The Transition Initiative supports activities that build confidence in the development of a participatory, stable, and democratic Iraq. Although the program has supported overall USAID/U.S. government efforts through multiple mechanisms, the activities are primarily implemented through a contract that allows for fast and flexible disbursement of small grants to local Iraqi groups and institutions. The program's assistance is directed to restoring basic government and community services, increasing an Iraqi dialogue and access to information, encouraging protection of human rights, and other activities. Short-term employment mitigates conflict and reinforces the program objective.

Iraq Local Institutions Support and Development Program

This initiative provides technical assistance programs to strengthen local administrations, civic institutions, and civil society. Programs focus on increasing the management skills, knowledge, and capacity of local administrators to direct public services and economic governance. The initiative also provides grants to both Iraqi and foreign non-governmental organizations (NGOs) to improve municipal infrastructure; assist local NGOs with capacity building; and conduct programs in communications, conflict resolution, leadership skills, and political analysis.

Domestic Oversight and Voter Education Activities for Iraqi Electoral Processes

This program helped Iraqis prepare for the January 30, 2005 elections and build their capacity to ensure the integrity of the electoral process. Specifically, the program was designed to:

- build the capacity of domestic organizations to monitor electoral events
- field domestic election observers on election day
- analyze the conduct and results of elections
- support a broad-based Coalition of Iraqi Nonpartisan Election Monitors
- establish an Iraqi Voter Outreach Training and Education Coalition
- design and conduct country-wide domestic voter education campaigns through national media coverage and grassroots activism
- create an Iraqi Alliance for Peaceful Elections and a set of techniques and approaches to monitor electoral conflict

Community Action Programs

Five cooperative agreements managed by NGOs are designed to implement Community Action Programs (CAPs). The programs generally promote citizen involvement at the grassroots level, supporting the formation of Community Action Groups that identify local priorities for community development and guide project implementation. The CAPs provide financial resources for citizens to participate in decision-making related to the policies and local development projects that govern their lives. Democracy-building is the largest subsector in this program, representing \$9 million of each of the five CAPs. Other subsector activities include potable water, wastewater, electricity, roads and bridges, and public building repair and renovation projects. The CAPs have provided a governance basis for the larger jobs creation initiative.

Civil Society and Media Support Initiative in Iraq

This program focuses on strengthening civil society's role in the economic, political, and social development of Iraq. Civil society resource centers have been established to provide training and technical assistance for Iraqi civil society offices, which serve as a focal point for training and workshops in subject areas (women's advocacy, human rights, constitutional structure and drafting) and grant-development training for future sources of third-party assistance. A second component of the program provides technical assistance to develop an independent media sector in Iraq.

Electoral Technical Assistance to the Independent Electoral Commission of Iraq

Technical assistance to the Independent Electoral Commission of Iraq (IECI) was provided to develop an independent and transparent election administration to implement the elections cycle, which began with the January 30, 2005 elections. This program supports the IECI and UN in developing and implementing operational plans for elections, including:

- the developing of voter lists
- assisting the IECI in building a national field infrastructure, including operational offices at the Governorate, sub-Governorate, and local election offices
- providing international technical and operation assistance when requested by the IECI and the UN
- providing emergency commodities and procurement support when necessary

Iraqi Government and Constitutional Development

This program provides support to both the Iraqi Transitional National Government and the national government that will be elected in late 2005. The program is designed to strengthen the capacity of the legislative branch during the transition in lawmaking, representation, and executive oversight. It will also support executive branch development of governing processes, rules of procedure, regulations, and directives necessary to enforce the laws and to implement government programs and policies. Through the provision of technical assistance, the program will support the process for adopting an Iraqi constitution that promotes democratic principles and values.

Agriculture Reconstruction and Development Program for Iraq

Democracy-building activities represented 2.2% of this U.S. Department of Agriculture (USDA) project to expand agricultural productivity; rehabilitate the resource base; and restore the capacity of small and medium agro-enterprises to produce, process, and market agricultural goods and services.

Media-based Voter Education Program

This program is a small media-based voter education program for Iraq that used low-cost small-media digital audio devices to convey civic education messages.

Support for the Iraqi Governing Council

This program provided technical assistance to the Iraqi Governing Council and Iraqi Interim Government. The objectives are:

- to strengthen the capacity of the governing bodies to provide legislative and administrative services
- to ensure that mechanisms and systems are in place to allow public access to the governing bodies
- to ensure that information on government actions is widely disseminated

The DoS, INL, manages a number of democracy-building and governance programs in Iraq, in part through a \$40 million allotment from the IRRF. These programs include the training of the judiciary, anti-corruption programs and rule of law programs, of which many are led by U.S. Department of Justice experts. Selected activities include working with the Iraqi Commission on Public Integrity, training investigators, integrating the justice system, increasing criminal justice capacity, preventing money laundering, and financing anti-terrorism activities.

Further Reading

For more details on Iraq reconstruction activities, see the DoS *Section 2207 Report* of April 5, 2005. This document can be found at:

<http://state.gov/m/rm/rls/2207/apr2005/>

Previous *Section 2207 Reports* are archived by the Office of Management and Budget at:

<http://www.whitehouse.gov/omb/legislative/>

The DoS *Iraq Weekly Status* reports can be found on the Web at:

http://www.export.gov/iraq/bus_climate/

The USAID posts its weekly updates on Iraq reconstruction at:

<http://www.usaid.gov/iraq/>

The PCO posts updates on construction starts and Iraqi employment at:

<http://www.rebuilding-iraq.net/>

Transcripts of Pentagon press interviews with Iraq reconstruction officials are available on the Web at:

<http://www.defenselink.mil/transcripts/>

Section 4

Public Law 108-106, as amended, requires the Special Inspector General for Iraq Reconstruction (SIGIR) to report on the oversight and accounting of the obligation and expenditure of funds used for Iraq reconstruction. The three main sources of funds used for this are U.S. appropriated funds, donated funds, and Iraqi funds. This section provides an accounting of the sources and uses of these funds.

Section 4 covers these topics:

- IRRF1 funds
- IRRF2 funds
- other U.S. appropriated funds
- Iraqi funds
- donor funds
- data clarification

As of March 30, 2005, approximately \$26.9 billion of U.S. and international donor funds had been provided for Iraq reconstruction. Another \$37.1 billion of Iraqi funds has been available, but most of these funds were used for the operation of the Iraqi government. Only a small portion was used for reconstruction. These are the funding streams:

- *U.S. appropriated funds*: \$24.3 billion—\$18.4 billion from the Iraq Relief and Reconstruction Fund 2 (IRRF2), used primarily for reconstruction (Note: Another \$5.7 billion, exclusively for security, is pending congressional approval.)
- *Donor funds*: \$2.6 billion for reconstruction and \$849 million for humanitarian relief
- *Iraqi funds*: \$37.1 billion primarily for the operation of the Iraqi government

IRRF2 Funds under P.L. 108-106

Currently, the IRRF is the primary U.S. funding vehicle for the reconstruction of Iraq. Created by P.L. 108-11 on April 16, 2003, the IRRF was designed “for necessary expenses for humanitarian assistance in and around Iraq and to carry out the purposes of the Foreign Assistance Act of 1961 for rehabilitation and reconstruction in Iraq.” Initially funded at \$2.4 billion, the IRRF (IRRF1) was used for projects identified in the immediate aftermath of Operation Iraqi Freedom. In contrast, the IRRF2 was more than seven times larger than the IRRF1, and it was designed to meet Iraq’s extensive reconstruction requirements identified over the summer and fall of 2003.

Passed on November 6, 2003, to provide \$18.4 billion in IRRF2 aid, P.L. 108-106, is unique. The Act mandates specific sector aid funding totals, with limitations on the transfer of funds between sectors without congressional notification or, in the case of larger modifications, without congressional approval. The Act also restricts apportioned funds to five departments or agencies: the Department of Defense (DoD), Department of State (DoS), U.S. Agency for International Development (USAID), Department of the Treasury (Treasury), and Department of Health and Human Services (HHS).

Since September 2004, a number of major reprogramming efforts have occurred. On September 30, 2004, the first major reprogramming shifted \$1.94 billion from the water and sanitation sector and \$1.07 billion from the electricity sector to the security sector (\$1.8 billion), the justice sector (\$461 million), the education sector (\$80 million), and the private employment development sector (\$660 million). An additional \$450 million was reprogrammed entirely within the oil sector.

In December 2004, \$457 million was reprogrammed to meet emerging needs in the electrical sector (\$211 million) and to provide post-battle damage reconstruction and rehabilitation in Sadr City, Najaf, Samarra, and Fallujah (\$246 million). In March 2005, \$832 million was reprogrammed for management initiatives. The management initiatives include money for operations and maintenance programs at various power and water plants, urgent work in the electrical and oil sectors, and cost growth incurred by design-build contractors.

Table 4-1 outlines the major efforts to reprogram IRRF2 funds.

Major IRRF2 Reprogramming Efforts, as of March 30, 2005		
Date	Amount	Sectors
September 2004	\$3.46 billion	Water, electricity to security, justice, education, private development; oil sector reprogrammed internally
December 2004	457 million	Electrical sector reprogramming; battle damage to Fallujah, Sadr City, Najaf, Samarra
March 2005	832 million	Job creation, O&M for water and power, electricity and oil, cost growth by contractors
Total	\$4.749 billion	
Note: Data not formally reviewed or audited.		

Table 4-1

The current totals and corresponding commitments, obligations, and expenditures are outlined in Table 4-2. Slightly more than \$10 billion (56.3%) of the funds has been apportioned to construction projects and \$6 billion (33.8%) has been apportioned to non-construction. As of March 30, 2005, these were the IRRF totals:

- \$17.4 billion (94.6%) had been apportioned.
- \$16.2 billion (87.9%) had been committed.
- \$12.0 billion (65.3%) had been obligated.
- \$4.2 billion (22.8%) had been expended.

Figure 4-1 shows the current totals for the IRRF2.

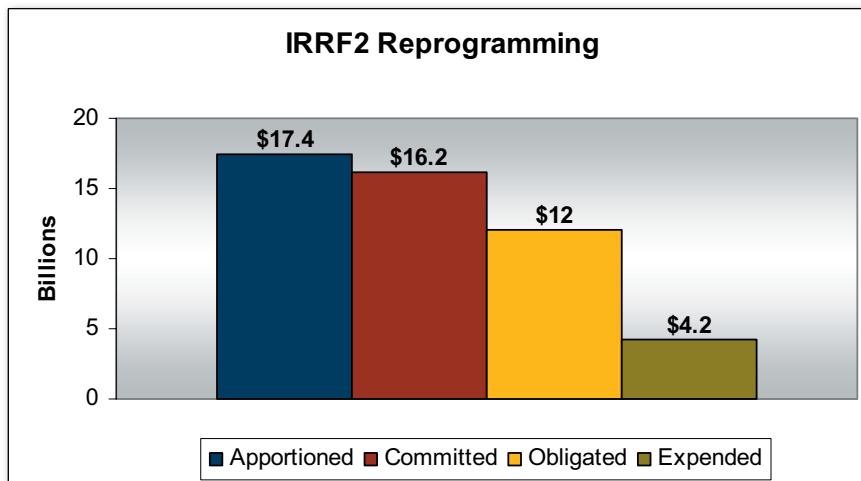


Figure 4-1

The Office of Management and Budget (OMB) apportioned these IRRF2 funds:

- DoD, \$12.9 billion (69.7% of the \$18.4 billion total)
- USAID, \$3.0 billion (16.1%)
- DoS, \$1.2 billion (6.4%)
- Treasury, \$39 million³ (.2%)

Figure 4-2 shows how the OMB apportioned IRRF2 funds.

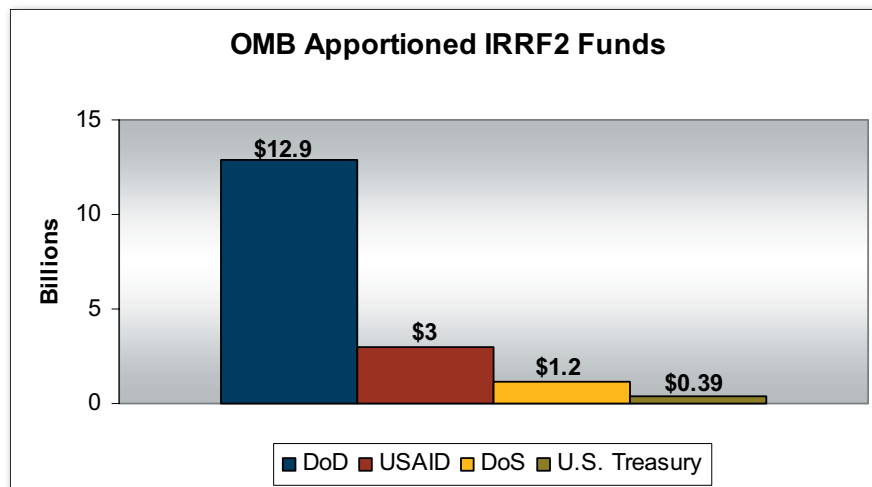


Figure 4-2

Appendix B shows detailed IRRF2 apportionments by agency.

IRRF2 Program Status, as of March 30, 2005 (in millions)					
Sector	2207 Report Spending Plan	Apportioned	Committed	Obligated	Expended
Security & Law Enforcement	\$5,045	\$5,045	\$4,585	\$3,822	\$1,742
Electric Sector	4,369	4,078	3,902	2,803	936
Water Resources and Sanitation	2,279	1,770	1,753	973	97
Justice, Public Safety, and Civil Society	1,952	1,952	1,725	1,435	506
Oil Infrastructure	1,701	1,701	1,562	1,005	221
Private Sector Employment Development	843	835	777	762	438
Health Care	786	786	759	451	54
Transportation and Telecommunications Projects	513	513	485	321	61
Education, Refugees, Human Rights, and Governance	379	379	283	251	67
Roads, Bridges, and Construction	359	355	340	186	58
Administrative Expense	213	29	29	29	29
Total by Sector	\$18,439	\$17,443	\$16,200	\$12,038	\$4,209
Construction	11,306	10,378	10,067	6,932	1,951
Non-construction	6,301	6,232	5,380	4,432	1,949
Democracy	832	832	753	668	309
Total by Program	\$18,439	\$17,443	\$16,200	\$12,038	\$4,209
Note: Data not formally reviewed or audited. Summary totals are affected by truncation.					

Table 4-2

Operating Expenses

Under P.L. 108-106, as amended, the SIGIR is required to report information on the operating expenses funded by the IRRF for U.S. government agencies or departments involved with the reconstruction of Iraq. Table 4-3 provides the status of operating funds derived from the IRRF for each agency with a footprint of operational activities in Iraq. IRRF2 money can be provided only to the DoD, DoS, Treasury, USAID, and HHS; therefore, any organization listed outside those departments receives funds through one of those five organizations. This table does not include mission-direct operating expenses.

Since the establishment of the U.S. Mission Iraq and the transfer of governance authority on June 28, 2004, various groups involved with Iraq reconstruction have received support from the budget of the U.S. Mission Iraq. This support is outside of the SIGIR's IRRF reporting requirements.

Agency-specific IRRF-funded Operating Expenses ^a , as of March 30, 2005 (in thousands)						
Agency	FY 2005 Allocated	FY 2005 Obligated	FY 2005 Expended	FY 2004 Allocated	FY 2004 Obligated	FY 2004 Expended
Department of Defense ^b	\$9,057	\$9,057	\$52,540 ^c	\$150,544	\$150,544	\$52,156
USACE	\$47	\$36	\$251 ^c	\$12,576	\$9,326	\$6,408
Dept. of Treasury	\$0	\$0	\$0	\$2,991	\$2,991	\$977
Dept. of Homeland Security ^d	\$2,600	\$1,460	\$1,460	-	-	-
Dept. of Justice ^e	\$0	\$48,584	\$9,101	\$146,037	\$76,426	\$44,985
Dept. of State	\$0	\$0	\$0	\$0	\$0	\$0
Dept. of Health and Human Services	\$0	\$0	\$0	\$0	\$0	\$0
Dept. of Transportation	\$0	\$0	\$0	\$0	\$0	\$0
Dept. of Commerce	\$0	\$0	\$0	\$0	\$0	\$0
Dept. of Agriculture	\$0	\$0	\$0	\$0	\$0	\$0
	IRRF2 Allocated	IRRF2 Obligated	IRRF2 Expended	IRRF1 Allocated	IRRF1 Obligated	IRRF1 Expended
USAID ^f	\$99,920	\$86,598	\$62,389	\$38,674	\$38,674	\$36,003
Note: This is the exact data as it was received by the SIGIR and has not been formally reviewed, verified, or audited.						
^a These operating expenses do not include mission-direct operating expenses.						
^b DoD FY 2005 operating expense is a building rehab and will be re-classified as a reconstruction asset by 2007.						
^c FY 2005 expenditures include funds disbursed from FY 2004 obligated.						
^d DHS will report 2004 operating expenses in 3rd Quarter 2005.						
^e DOJ reported its no-year monies in the FY 2004 columns.						
^f USAID reported information by fund type, not by fiscal year.						

Table 4-3

Since its inception as the Coalition Provisional Authority Inspector General (CPA-IG), the SIGIR has tracked the operational expenses of the CPA. CPA daily operations from April to November 6, 2003, were initially supported by the Iraq Freedom Fund (IFF),

which was created by P.L. 108-11 in April 2003. As of February 28, 2005, \$573.3 million has been allocated, \$568.2 million has been obligated, and \$507.6 million has been disbursed. From November 6, 2003, to June 28, 2004, CPA operations were funded from P.L. 108-106. As the U.S. Mission Iraq became operational and its Iraq Reconstruction Management Office (IRMO) component assumed the duties of the CPA, \$105.75 million was transferred from the CPA's P.L. 108-106 appropriation to the DoS to fund these operations. The status of these transferred funds is included in Table 4-4, which is an update of the status of those funds as of March 30, 2005. The Congress also authorized the funding of CPA-IG operations (now the SIGIR) with \$75 million from the 2004 Defense-wide operations and maintenance (O&M) appropriations.

Status of Supplemental Iraq Reconstruction Funding, P.L. 108-106, as of March 30, 2005 (in millions)					
Source	Appropriated	Apportioned	Committed	Obligated	Expended
IRRF2	\$18,439	\$17,443	\$16,200	\$12,028	\$4,209
CPA-OPS	768.8	768.8	768.8	757.6	670.1
IRMO ^a	129.5	129.5	129.5	104.9	72.6
SIGIR	75.0	75.0	75.0	25.9	15.4
Total	\$19,412.3	\$18,416.3	\$17,173.3	\$12,916.4	\$4,967.1
Note: Data not formally reviewed or audited.					
^a Includes \$23.8 million apportionment for reporting purposes pending					

Table 4-4

Other U.S. Appropriated Funds

P.L. 108-11 provided other U.S. appropriated funds for the reconstruction of Iraq, and P.L. 108-287 provided funds for a portion of the Commanders' Emergency Response Program (CERP).

Public Law 108-11

In April 2003, the Congress passed P.L. 108-11 to fund the war effort in Iraq and to appropriate money for the beginning of the relief and reconstruction effort. The Act also established the Natural Resources Risk Remediation Fund (NRRRF) “for expenses necessary, in and around Iraq, to address emergency fire fighting, repair of damage to oil facilities and related infrastructure, and preserve a distribution capability.” P.L. 108-11 also created the IFF “for additional expenses for ongoing military operations in Iraq...for stability operations...and for other costs.” This fund provided CPA operating expenses, and \$300 million was transferred to the NRRRF. The Act also funded additional relief and reconstruction activities by the DoS (\$66 million) and USAID (\$412 million); funds were available for obligation through September 30, 2004.

P.L. 108-11 funded the daily operations of the CPA until P.L. 108-106 was passed in November 2003. Although the CPA ceased operations on June 28, 2004, contractual payment obligations resulting from contracts awarded by the CPA during its tenure are still being fulfilled. Most of the funds (55%) allocated in P.L. 108-11 were used for the rehabilitation of Iraqi infrastructure—primarily oil production and electricity generation. Other major uses include relief, governance initiatives, and health and social services.

Status of Supplemental Appropriation, P.L. 108-11, as of March 31, 2005 (in millions)				
Source	Agency	Apportioned	Obligated	Expended
NRRRF	DoD	\$802.0	\$800.6	\$685.6
IRRF	USAID	1,818.6	1,818.3	1,534.2
	DoD IRRF1	518.3	518.3	490.1
	DoS	125.4	125.4	115.4
	Treasury	6.0	6.0	4.6
	U.S. Trade & Development Agency	5.0	5.0	1.2
	<i>Subtotal</i>	<i>2,473.3</i>	<i>2,473.0</i>	<i>2,145.6</i>
Non-IRRF P.L. 108-11	USAID	412.1	410.5	380.1
	DoS	66.0	66.0	60.4
	<i>Subtotal</i>	<i>478.1</i>	<i>476.5</i>	<i>440.5</i>
IFF	CPA-OPS	593.4	568.2	507.6
	New Iraqi Army	51.2	51.2	49.6
	<i>Subtotal</i>	<i>644.6</i>	<i>619.4</i>	<i>557.2</i>
Total		\$4,398.0	\$4,369.5	\$3,828.9
Note: Data not formally reviewed or audited.				

Table 4-5

Table 4-5 provides the status of P.L. 108-11 funds by agency, and Tables 4-6 and 4-7 provide the status of P.L. 108-11 funds by program and by objective.

Status of P.L. 108-11 IRRF1 Funds by Program and by USAID Strategic Objectives, as of February 28, 2005 (in millions)				
Agency	Program Name	Apportioned	Obligated	Expended
IRRF1 Funds				
USAID	Restore Critical Infrastructure	\$1,124.3	\$1,124.3	\$908.2
	Improve Efficiency & Accountability of Government	174.7	174.7	173.2
	Food Aid: Office of Food for Peace	160.0	160.0	122.8
	Support Education Health and Social Services	118.5	118.5	104.3
	Relief: Office of Foreign Disaster Assistance	72.2	72.0	61.9
	Office of Transition Initiatives	70.0	69.9	68.3
	Expand Economic Opportunity	65.9	65.9	64.0
	Program Support & Development of Gulf Region	18.0	18.0	17.5
	Administrative Expenses	15.0	15.0	14.0
	<i>Subtotal</i>	<i>1,818.6</i>	<i>1,818.3</i>	<i>1,534.2</i>
DoD	Restore Iraq Electricity (RIE)	300.0	300.0	299.5
	Restore Iraq Oil (RIO)	166.0	166.0	161.0
	First Responder Network/DIILS	52.3	52.3	29.6
	<i>Subtotal</i>	<i>518.3</i>	<i>518.3</i>	<i>490.1</i>
DoS	Police/Prison Programs	61.5	61.5	56.2
	Relief Efforts	27.0	27.0	26.6
	Law Enforcement	24.6	24.6	20.4
	Humanitarian Demining	12.3	12.3	12.3
	<i>Subtotal</i>	<i>125.4</i>	<i>125.4</i>	<i>115.5</i>
Treasury	Technical Assistance	6.0	6.0	4.6
	<i>Subtotal</i>	<i>6.0</i>	<i>6.0</i>	<i>4.6</i>
U.S. Trade and Dev. Agency	Technical Assistance, Training	5.0	5.0	1.2
	<i>Subtotal</i>	<i>5.0</i>	<i>5.0</i>	<i>1.2</i>
Total IRRF1 Funds		\$2,473.3	\$2,473.0	\$2,145.6
Note: Data not formally reviewed or audited.				

Table 4-6

Status of P.L. 108-11 NRRRF and Non-IRRF1 Funds by Program and by USAID Strategic Objectives, as of March 31, 2005 (in millions)				
Agency	Program Name	Apportioned	Obligated	Expended
NRRRF Funds				
DoD	Restore Iraq Oil (RIO)	\$802.0	\$800.6	\$685.6
Total NRRRF Funds		\$802.0	\$800.6	\$685.6
Non-IRRF1 Funds				
USAID	Food Aid: Office of Food for Peace	\$138.2	\$136.7	\$114.0
	USDA ^a	106.8	106.8	106.8
	Restore Critical Infrastructure	51.6	51.6	51.6
	Support Education Health and Social Services	34.0	34.0	34.0
	Relief: Office of Foreign Disaster Assistance	33.4	33.3	26.3
	Operating Expenses	23.7	23.7	23.0
	Program Support & Development of Gulf Region	10.5	10.5	10.5
	Improve Efficiency & Accountability of Government	8.9	8.9	8.9
	Expand Economic Opportunity	5.0	5.0	5.0
	<i>Subtotal</i>	<i>412.1</i>	<i>410.5</i>	<i>380.1</i>
DoS	Coalition Support	66.0	66.0	60.4
	<i>Subtotal</i>	<i>66.0</i>	<i>66.0</i>	<i>60.4</i>
Total Non-IRRF1 Funds		\$478.1	\$476.5	\$440.5
Note: Data not formally reviewed or audited.				
^a Funds appropriated to the U.S. Department of Agriculture, then transferred to the USAID				

Table 4-7

Commanders' Assistance Programs

Military assistance programs have played a vital role in the reconstruction of Iraq. With inherent security capability, local commanders can develop the necessary relationships and understanding to initiate crucial projects. Initially funded with Iraqi assets [seized assets and Development Fund for Iraq (DFI) funds] the CERP received its first U.S. appropriated funds in November 2003 with the passage of P.L. 108-106. The Commanders Humanitarian Relief and Reconstruction Program (CHRRP) is a similar program that uses IRRF funds. In addition, the Iraqi Interim Government (IIG) funded a CERP-equivalent program.

Commanders' Emergency Response Program

The CERP is a program that coalition military commanders can quickly use to direct money to meet humanitarian, relief, and reconstruction needs in their geographic areas of responsibility. Specifically exempt from the Federal Acquisition Regulation (FAR), CERP projects are relatively small—less than \$500,000—and meet these kinds of needs:

- repairing and refurbishing water and sewer lines
- cleaning up highways by removing waste and debris
- transporting water to remote villages
- purchasing equipment for local police stations
- upgrading schools and clinics
- purchasing school supplies
- removing ordnance from public places (including schools)
- refurbishing playgrounds, youth centers, libraries, other recreational facilities, and mosques

The Iraqi CERP program received \$140 million in U.S. FY 2004 funds and, as of March 2005, has received \$368 million from FY 2005 money. CERP projects are typically used for projects that are:

- small-scale
- low-dollar
- short-term
- employment-oriented
- emergency
- high-visibility

For a summary of CERP expenditures, see Table 4-8. Table 4-9 provides a profile of selected CERP projects funded by U.S. appropriations and a small segment of those funded by the DFI.

Iraq CERP Program Totals FY 2004-2005, as of April 1, 2005			
	Total Program Funding	Cumulative Funds Obligated	Cumulative Funds Disbursed
Seized Assets	\$177,645,171	\$177,280,923	\$176,245,139
U.S. Appropriated P.L. 108-106	140,000,000	139,837,121	124,172,607
U.S. Appropriated P.L. 108-287	368,000,000	229,783,192	89,835,181
DFI	369,474,004	360,289,062	350,426,149
Total	\$1,055,119,175	\$907,190,298	\$740,679,076
Note: Data not formally reviewed or audited.			

Table 4-8

Selected CERP Projects by Type, as of April 1, 2005			
Project Type	Project Total	Completed Projects	Estimated Funds
Agriculture and Irrigation	226	178	\$22,333,258
Civil Infrastructure Activities	753	577	35,572,422
Economic, Financial, Management	251	178	16,373,744
Education	1157	872	56,410,294
Electricity	276	686	34,116,470
Health Care	416	272	27,926,758
Law and Governance	1352	1151	70,014,868
Oil	24	5	6,813,114
Other Humanitarian or Reconstruction	1157	928	46,226,124
Telecom	49	27	5,464,732
Transportation	506	290	59,346,451
Water and Sanitation	1012	683	195,313,461
Total	7,179	5,360	\$575,911,696
Note: Data not formally reviewed or audited.			

Table 4-9

Commanders Humanitarian Relief and Reconstruction Program and IIG Military Reconstruction Assistance Program

In response to an Iraqi demand to match IIG grants for the CERP program, a separate CHRRP was created. The CHRRP was funded out of IRRF2 money, which requires adherence to the FAR. The IIG [now the Iraqi Transitional Government (ITG)] initially funded the program for \$86 million in response to a U.S. request; this was increased by an additional \$50 million on December 30, 2004. The U.S. matching CHRRP fund was initially set at \$86 million; however, this was adjusted to \$84 million in February 2005. ITG projects must be selected from an approved project list agreed on by the ITG and the Multi-National Force-Iraq (MNF-I). For a summary of CHRRP and IIG data, as of April 1, 2005, see Table 4-10.

CHRRP and IIG Funds, as of April 1, 2005			
	Total Program Funding	Cumulative Funds Obligated	Cumulative Funds Disbursed
CHRRP Projects	\$84,000,000	\$76,849,447	\$2,104,858
IIG Projects	136,000,000	92,881,572	44,704,957
Total	\$220,000,000	\$169,731,019	\$46,809,815
Note: Data not formally reviewed or audited.			

Table 4-10

Iraqi Funds

Iraqi funds available for reconstruction can be grouped into three categories: seized funds, vested funds, and funds deposited in the DFI:

- *Seized funds* were former Iraqi regime monies confiscated by coalition forces.
- *Vested funds* were Iraqi funds in U.S. banks that were frozen by executive order, vested in the U.S. Treasury, and authorized for use to benefit the people of Iraq.
- The *DFI* was created by the CPA, and the UN concurred on May 2003 (UNSCR 1483). The DFI contains proceeds from Iraqi oil sales, repatriated assets from the United States and other nations, and deposits from unencumbered Oil-for-Food (OFF) program funds. Since the transfer of governance authority to the IIG on June 28, 2004, total deposits to the DFI can only be estimated, because the SIGIR does not have access to information on the status of DFI funds now under ITG control. DFI totals for funds obligated and disbursed are not available. The DFI funds the Iraqi National Budget, primarily from current oil sales.

Seized Funds

Coalition military forces seized \$926.7 million in funds from the former Iraqi regime. Virtually all of the seized funds have been allocated. Current Defense Finance and Accounting Service (DFAS) accounting systems indicate that \$890.1 million have been obligated and \$844.1 million have been expended as of March 31, 2005. U.S. Army accounting officials have not reconciled or fully audited the totals for seized funds. The bulk of seized assets were used primarily for:

- non-ministry repairs and humanitarian assistance
- Iraqi ministry operations
- the Rapid Regional Response Program (RRRP or R3P)
- the Commanders' Emergency Response Program (CERP)
- fuel products (diesel, heating oil, etc.) for the Iraqi people

For a detailed list of the uses of seized funds, see Appendix C.

Vested Funds

In response to a UN resolution passed after the first Gulf War, the United States froze Iraqi assets (UNSCR 661, August 1990; Presidential Executive Order 12817 of October 23, 1992). Presidential Executive Order 13290 of March 20, 2003, vested frozen funds for use in Iraq. As of March 31, 2005, \$1.724 billion had been transferred for use in Iraq.

As of March 31, 2005, \$1.703 billion (98.8%) had been obligated, and \$1.687 billion (97.9%) had been expended, according to U.S. Army accounting records. Current records for the Joint Area Support Group Comptroller Baghdad indicate that all but \$.4 million have been committed as of March 31, 2005. Vested funds were primarily used for:

- Iraqi civil servant salaries, pensions, and individual relief payments
- Iraqi ministry operations
- repair and reconstruction

For a more detailed listing of expenditures from vested funds, see Appendix D.

Although the bulk of frozen Iraqi assets was vested and sent to Iraq, a balance of \$396.6 million remained. The U.S. government has transferred \$208.6 million to the DFI and set aside \$128 million for perfected judgments. The amount of frozen assets remaining in the United States is currently \$44.9 million (down from \$60 million), largely because of a reconciliation of blocked tangible Iraqi assets.

Development Fund for Iraq

The Development Fund for Iraq (DFI) was established by the CPA with UN concurrence in May 2003 to serve as the primary financial vehicle to channel revenue from Iraqi oil sales, unencumbered OFF deposits, and repatriated Iraqi assets to the relief and reconstruction of Iraq.

When the IIG assumed governance authority, responsibility for the DFI sub-account was transferred to the Chief of Mission on June 28, 2004. As a result, the SIGIR no longer has access to or visibility of DFI account status, beyond the portion of DFI authorized by the Iraqi Minister of Finance for the U.S. government to disburse against DFI-funded contracts awarded by the CPA. Since the SIGIR's December estimate of total DFI revenues of \$30.098 billion, an additional \$4.38 billion of oil revenues has been realized as of March 30, 2005. This brings total estimated DFI revenues to \$34.478 billion. The totals for DFI obligations and disbursements are not available.

DFI Sub-account

Prior to the transfer of governance authority to the IIG, the administration of contracts awarded by the CPA from DFI funds was delegated to the U.S. government. A separate sub-account, the "Central Bank of Iraq/Development Fund for Iraq/Transition," was created at the Federal Reserve Bank of New York to enable payment for work on those contracts. In addition to the Federal Reserve funds, cash has been provided to enable payment in Iraq for those projects that require this method of payment.

On June 15, 2004, the Iraqi Minister of Finance designated the Director of the Program Management Office (PMO), now the Project and Contracting Office (PCO), to administer and make payments on those DFI contracts that:

- were entered into before June 28, 2004
- were not secured by a letter of credit
- did not exceed the limit of \$800 million

This initial limit was intended as a first step toward ensuring the continuity of the execution for these contracts because it was known that the overall liability would substantially exceed this amount. The Ministry of Finance increased the amount provided to the DFI sub-account to meet contract obligations at his discretion.

The increased payment limits are shown in Table 4-11.

DFI Sub-account Deposits, as of March 2005 (in millions)		
Transfer/ Deposit	Date	Amount
Cash on Hand	June 28, 2004	\$217.7
Beginning Transfer/Balance	June 28, 2004	800
Additional Replenishment	September 20, 2004	400
Additional Replenishment	November 23, 2004	800
Additional Replenishment	December 24, 2004	800
Total		\$3,017.7
Note: Data not formally reviewed or audited.		

Table 4-11

\$217.7 million of DFI cash that was in the possession of CPA officials when governance transferred to the IIG has been retained for payment of DFI obligations. An additional \$86 million of Iraqi funds has been flowed through the DFI sub-account to U.S. military units to fund a matching grant by the IIG. This transfer was executed for ease of currency disbursement and is not part of the execution of DFI sub-account contracts.

In December 2004, outstanding DFI sub-account liabilities were estimated at \$3.5 billion. Because of the \$3.017 billion provided by the IIG, this created an unfunded liability of \$486.8 million. According to the April 2005 DoS *Section 2207 Report*, this liability was revised to \$42 million in March 2005.

Table 4-12 provides the DFI fund status as of the end of March 2005.

DFI Sub-account Fund Status, as of March 2005 (in millions)		
Sources of Funds	Bank	Cash
Beginning Balance	\$800.0	\$217.7
Additional IIG Funds	2,000.0	0
Interest Earned	5.6	0
Total	\$2,805.6	\$217.7
Uses of Funds	Bank	Cash
Allocated and Paid	\$1,851.3	\$117.3
Allocated and Unpaid	954.3	100.4
Unallocated	0	0
Total	\$2,805.6	\$217.7
Note: Data not formally reviewed or audited.		

Table 4-12

Other Iraqi Potential Repatriated Funds

With the transfer of governance authority on June 28, 2004, the IIG assumed primary responsibility for seeking worldwide recovery, under UN resolutions, of Iraqi assets frozen in response to past actions of the former regime. The U.S. government continues to actively assist the IIG in its search and recovery effort, but no longer has access to information on recovered asset balances.

The Oil-for-Food Program

The UN Oil-for-Food (OFF) program traded Iraqi oil for goods and services (primarily food) to alleviate suffering caused by the UN Iraqi oil embargo. The program's oil sales operation began in December 1996, and its last oil sales occurred in March 2003—just before Operation Iraqi Freedom began. Food distribution was interrupted during hostilities. On May 22, 2003, the UN lifted its sanctions and gave the OFF program six months to conclude operations. On November 21, 2003, the UN OFF program officially ended.

Detailed financial information on the OFF's revenues and expenditures from December 1996 until December 2002 is included in the January 2005 SIGIR Quarterly Report. In March 2005, the UN released unaudited financial statements for calendar year 2004, but not for calendar year 2003. This omission precludes any substantive further analysis because activities in 2003 included vital revenue and expenditure operations. The SIGIR is waiting for the UN to release operating information for 2003.

The OFF program remits surplus uncommitted OFF funds to the DFI when previously obligated amounts become available as unexecuted letters of credit expire. As of June 30,

2004, \$8.6 billion have been transferred to the DFI from the OFF program (\$8.1 billion while under U.S. control). The ITG is now responsible for the oversight of OFF contracts. The ITG will decide which contracts will be allowed to expire unexecuted or partially executed and which will be honored with the delivery of goods and services already paid for by OFF past revenues.

Donor Funds

In response to the relief and reconstruction requirements in Iraq, aid has been donated by many countries and several international organizations. Periodic donor conferences are held to coordinate international activities. The first was in Madrid in October 2003, and the latest was in Tokyo, October 14-15, 2004. The next donor conference is scheduled for Jordan, in late spring 2005. At the Madrid Donor Conference, non-U.S. donor nations and international organizations pledged \$13.5 billion for the medium-term reconstruction of Iraq (2004-2007). For a comprehensive list of those pledges, see Appendix F. Individual donor nations pledged approximately \$8 billion for immediate humanitarian aid, bilateral assistance, and internationally distributed aid.

Humanitarian Aid

In the immediate wake of Operation Iraqi Freedom, various countries and UN organizations provided \$849 million in humanitarian aid through December 2003 (excluding U.S. and OFF assistance). This aid was not counted as part of the Madrid Donor Conference reconstruction pledge amounts.

Bilateral Aid

Bilateral project aid is provided directly from a donor country to the Iraqi people or its government. As of March 30, 2005, the DoS estimates that approximately \$1.296 billion in bilateral project assistance has been donated to Iraq. Much of it has been donated by Japan, the largest non-U.S. donor country. Highlights of individual donor country activities are included in the DoS *Section 2207 Report* of January 5, 2005.

International Reconstruction Fund Facility for Iraq (IRFFI)

Most of the assistance pledged by individual nation states is currently being channeled through international organizations. The Madrid conference established the International Reconstruction Fund Facility for Iraq (IRFFI) to give donor countries a multilateral channel for their assistance to Iraq. The IRFFI has two trust funds, one administered by the World Bank and the other by the United Nations Development Group (UNDG). These two trust funds are the primary delivery mechanisms for aid to Iraq. Appendix E is a detailed summary of international trust fund commitments and deposits by country.

The IRFFI Website (<http://www.irffi.org>) provides a wealth of information. Current commitments (as of March 2005) to the two trust funds are \$1.06 billion: the World Bank has committed \$394 million; the UNDG, \$663.6 million. Deposits to those two organizations total \$1,022 million: \$394.3 million was deposited with the World Bank, and \$627.8 million was deposited with the UNDG. For a more detailed list of the IRFFI and its constituent trust funds, see Appendix E of this Report.

The IRFFI Website has a detailed project and program description of both the World Bank trust fund efforts and those of the UNDG. The IRFFI UNDG trust fund has developed a strategic planning framework, organized along 11 “clusters,” in which various UN specialized agencies work together under a cluster lead agency in each. Updated information is available on the Website.

Although current commitments to the IRFFI total just over \$1 billion, donor nations pledged more than \$8 billion at the Madrid Donor Conference. For the top 10 donor countries, the differences between IRFFI commitments and Madrid pledges total \$6.7 billion. Just over half of this amount represents the pledge by the government of Japan to extend \$3.5 billion in concessionary loans for Iraq reconstruction. Another approximately \$1.296 billion is the bilateral aid provided by countries, such as Japan, the United Kingdom, Spain, and Canada. Approximately \$2 billion in unrealized pledge amounts comes from eight of the top ten pledged countries (excluding Japan and the United Kingdom). These countries are primarily Persian Gulf nations with large Iraqi debt holdings.

The time period applicable for Madrid pledges was 2004-2007. The change of Iraqi governance authority on June 28, 2004, has led several of the Persian Gulf nations to start discussions with Iraqi authorities about disbursing their Madrid pledges. These same Persian Gulf nations are the principal holders of Iraqi sovereign debt. Forgiveness of the more than \$60 billion in non-Paris Club debt, the bulk of which is owed by these nations, far overshadows their pledged donor commitments and may have an effect on the immediacy of their donor contributions. In addition, the recent election of the current Iraqi government provides an opportunity for the applicable Gulf States to begin creating the personal relationships that may spur action.

World Bank, International Monetary Fund, and Donor Loan Programs

The World Bank and International Monetary Fund (IMF) have announced potential assistance packages to Iraq worth between \$5.5 and \$9.25 billion. Aid to Iraq from Japan, the largest non-U.S. benefactor, is primarily in the form of a loan (\$3.5 billion). The World Bank currently envisions an initial lending envelope of \$500 million from the International Development Association (IDA) and \$500 million from the International Bank for Reconstruction and Development (IBRD) during FY 2004 and FY 2005. During the second week of December 2004, the World Bank country director for Iraq received a written request for IDA funding. On December 16, 2004, Iraq cleared its arrears to the World Bank. As of April 5, 2005, any World Bank loans to Iraq were still in the negotiation phase.

The IMF has pledged assistance to Iraq with an initial \$850 million in Emergency Post-Conflict assistance and follow-up assistance loans of \$850–1,700 million. On September 29, 2004, the executive board of the IMF approved a disbursement of approximately \$436.3 million, denominated in special drawing rights (SDR).⁴ This initial granting of emergency post-conflict assistance occurred after Iraq settled its arrears to the fund of SDR 55.3 million (approximately \$81 million U.S.) on September 22, 2004. In addition

to settling its IMF arrears, Iraq has paid for an increase in its quota under the IMF's Eleventh General Review of Quotas. Iraq's quota has increased from SDR 504 million (\$740.1 million U.S.) to SDR 1.19 billion (\$1.75 billion U.S.). This quota increase was a combination of a payment of \$251 million in cash and a non-interest bearing promissory note for the balance (total payment of \$1.08 billion U.S.). Iraq can draw on its quota with the concurrence of the IMF leadership.

By 2009, the World Bank expects to lend an additional \$2-4 billion beyond its initial set of loans, but subsequent lending is "predicated on an optimistic scenario of improvements in political stability and security, rapid economic recovery (including the oil sector), and generous debt relief," according to the *Interim Strategy Note of the World Bank Group for Iraq*, January 14, 2004. The IMF shares the same concerns and may not provide the full amount pledged in Madrid without a sound macroeconomic framework and government commitment to key structural reforms in place.

Iraqi Debt Relief

Iraqi external debt relief is vital to its reconstruction and long-term economic health. The November 21, 2004 agreement between Iraq and the members of the Paris Club to reduce Iraq's \$38.9 billion debt by 80% was a crucial first step. More specific terms of the agreement were outlined in the SIGIR's January 2005 Quarterly Report to Congress. Iraq has committed to seek comparable treatment from its other external creditors. The vast majority of those other creditors are official bilateral creditors (primarily Gulf States) estimated by the IMF to hold \$67.4 billion in debt. In addition to public debt, Iraq owes approximately \$15 billion to private sources, including commercial banks. Iraq is also obligated to seek terms comparable to those agreed by the Paris Club from those creditors. The ITG is currently continuing its efforts at reaching agreements, but no formal progress has been made as of the publication deadline for this Report.

Sources and Uses of Funding for Iraq Relief and Reconstruction Data Clarification

The SIGIR compiled data on the sources, uses, and status of Iraq reconstruction funds from the OMB, DFAS, U.S. Army, DoS, USAID, Treasury, U.S. Trade and Development Agency, IMF, and World Bank. The SIGIR analyzed the data for reasonableness and consistency across sources of data. The SIGIR did not review or audit the processes, controls, or systems in place at the providing agency or organization. The SIGIR accepted the validity of the data provided and believes that the presentation of Sources and Uses of Funds in this Report is a reasonable compilation of the status of Iraq relief and reconstruction funding through March 30, 2005 (unless an alternative date is noted).